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Shared Services and BPO – Methodologies, Tools and future Trends



Workshop

Thomas Rachfall, Consultant
Offshoring Institute

Shanghai March 14, 2008

Contents

1. Shared Services – background, methodologies and trends

- ➔ History and definition
- ➔ Value chain and support processes
- ➔ The path to intelligent sourcing
- ➔ Evaluating shared service potential
- ➔ Further development to Offshoring and BPO
- ➔ The economic perspective
- ➔ Further automation & digitalization

2. Location Selection + Case Study

- ➔ Offshoring / Nearshoring / Onshoring
- ➔ Location Trends
- ➔ Location Selection Criteria
- ➔ Case Study

3. BPO Vendor Analysis and Selection + Case Study

- ➔ Understanding the BPO Vendor market
- ➔ Vendors Selection Criteria
- ➔ Case Study

The Workshop Leader

Thomas Rachfall

- Consultant Offshoring Institute, Berlin
- E-Mail: thomas.rachfall@offshoring-institute.de

→ Selected Work Experience

Global Pharmaceutical and Chemical Corporation (former Employer 2007)
Analyzed and market-tested the Accounts Payable and Intercompany Accounting processes in the captive Shared Service Centers in Europe

→ Selected Research Projects

Shared Services and Offshoring in the Top 80 German Companies
Researched Shared Services and Offshoring activities of selected large-scale construction, pharmaceuticals and oil corporations in Germany including expert-interviews with senior executives

A light blue world map is centered in the background of the slide. The map shows the outlines of continents in a slightly darker shade of blue. In the top left corner, there is a partial view of a globe with a grid of latitude and longitude lines.

FSSC – Introduction to FSS

History and Definition

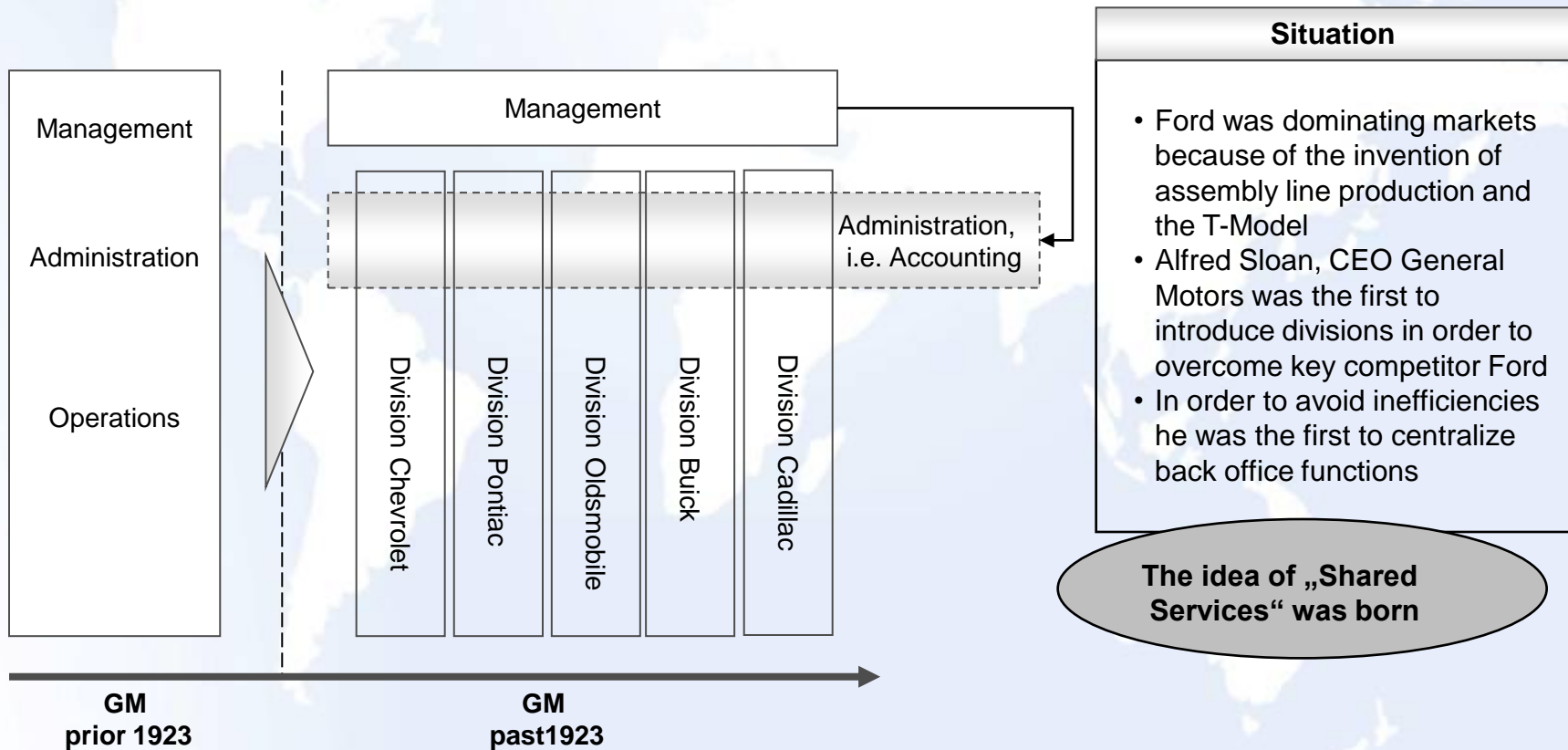
The World is Flat – The ten „Flatteners“ according to Thomas Friedman

 Thomas Friedman

1. **Nov 9, 1989** – the fall of the Berlin Wall: the western businesses explore the east
2. **Aug 9, 1995** – Netscape goes public: the World Wide Web becomes reality
3. **Workflow Software** – data formats XML and SOAP enable communication between software applications
4. **Open Source Communities** – on-line communities enable access to and generate information, e.g. Wikipedia
5. **Outsourcing and Y2K** – India established the Indian Institute of Technology in 1956 and becomes an IT powerhouse. Western companies with scarce IT resources need to utilize the abundant workforce in India to resolve Y2K adjustments of their software
6. **Offshoring takes off** – with China entering the WTO it becomes a viable service location besides India
7. **Supply Chaining** – closer cooperation between supplier and OEM leads to efficient vertical networks
8. **Insourcing** – Friedman means outsourcing of specific tasks to logistic and transportation providers such as complaint management and PC maintenance
9. **Informing** – Search engines such as Google, Yahoo! And MNS Search have led to drastically faster information flows
10. **New Technologies** – Wireless networks and cross-ocean fiber optic networks in conjunction with the internet create worldwide accessibility and information flow

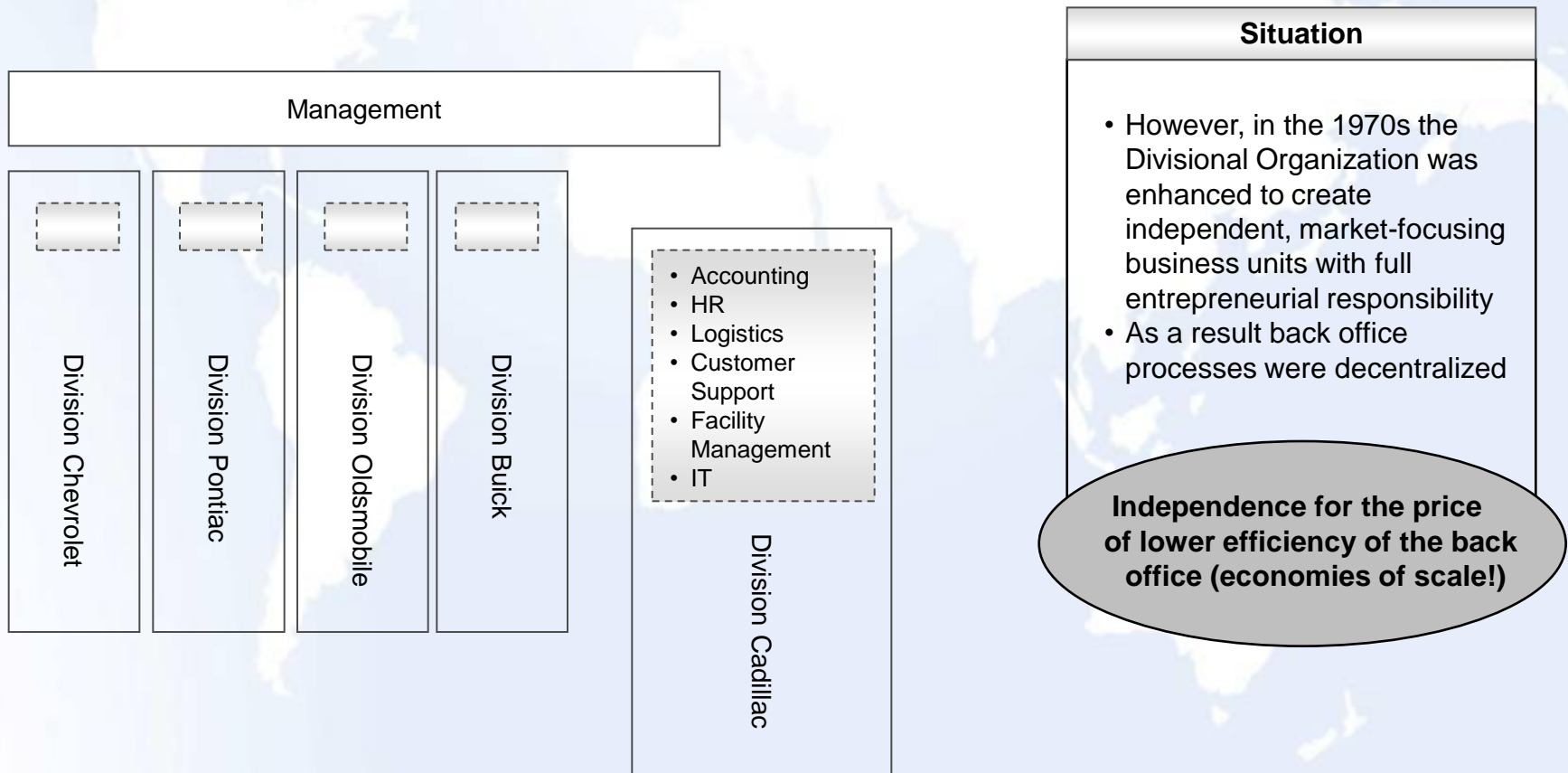
History and Definition

Historic Development of Shared Services



History and Definition

Historic Development of Shared Services

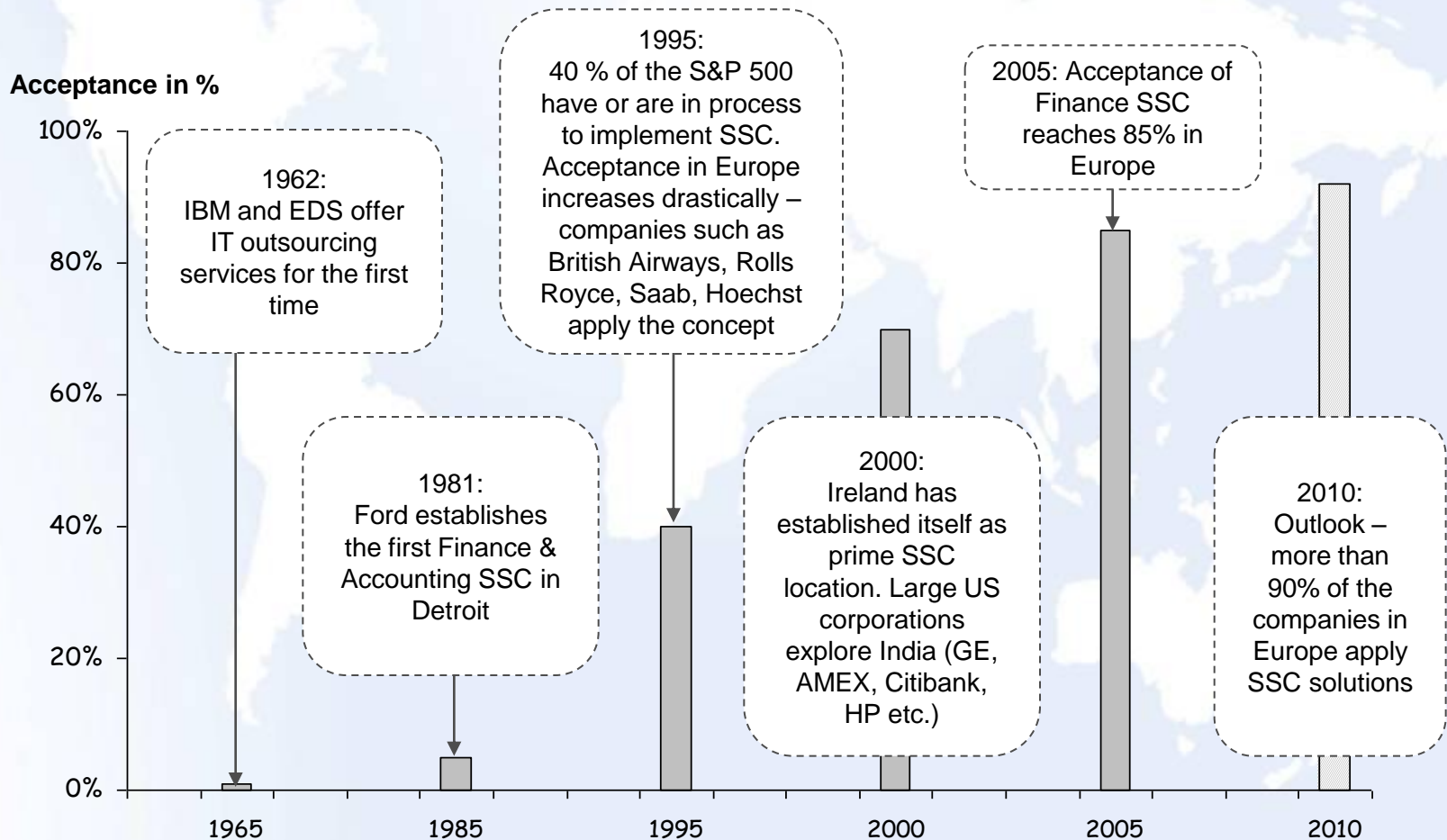


Situation
<ul style="list-style-type: none"> • However, in the 1970s the Divisional Organization was enhanced to create independent, market-focusing business units with full entrepreneurial responsibility • As a result back office processes were decentralized

Independence for the price of lower efficiency of the back office (economies of scale!)

History and Definition

Historic Development of Shared Services



History and Definition

Shared Services – What is it?

Definition of Shared Services by A.T. Kearney

Shared services are the creation of a client-focused business organization that consolidates a range of support activities and tasks. In this environment, support functions operate as a business partner to the business units and other functional areas within a company. Such organizations measure and drive the performance of their services like professional, independent entities focused on:

- ➔ Quantity, quality and cost of services that are mutually agreed upon
- ➔ Costs charged out on the basis of usage
- ➔ Service agreements that are used to formalize business relationships with internal clients

Shared services allow organizations to move beyond cost savings, positioning support functions as strategic value drivers, while allowing for the creation of new, more autonomous organizational units focused on efficient transactional management.“

Definition of Shared Services by Bergeron

Shared Services is a collaborative strategy in which a subset of existing business functions concentrated into a new, semiautonomous business unit that has a management structure

History and Definition

Shared Services – What is it?

- Shared Services is the outsourcing of back office processes to an internal provider
- Re-engineering of work to foster standardization and simplification
- Centralization and consolidation of activities to enhance leverage
- Operating costs are significantly reduced
- Sustainable improvements are achieved in service levels and cycle times
- The work is process driven versus function driven
- Compliance to standards and best practices enhances control environment

Shared Services = Insourcing with leverage

History and Definition

Shared Services – A widely applied concept among major corporations

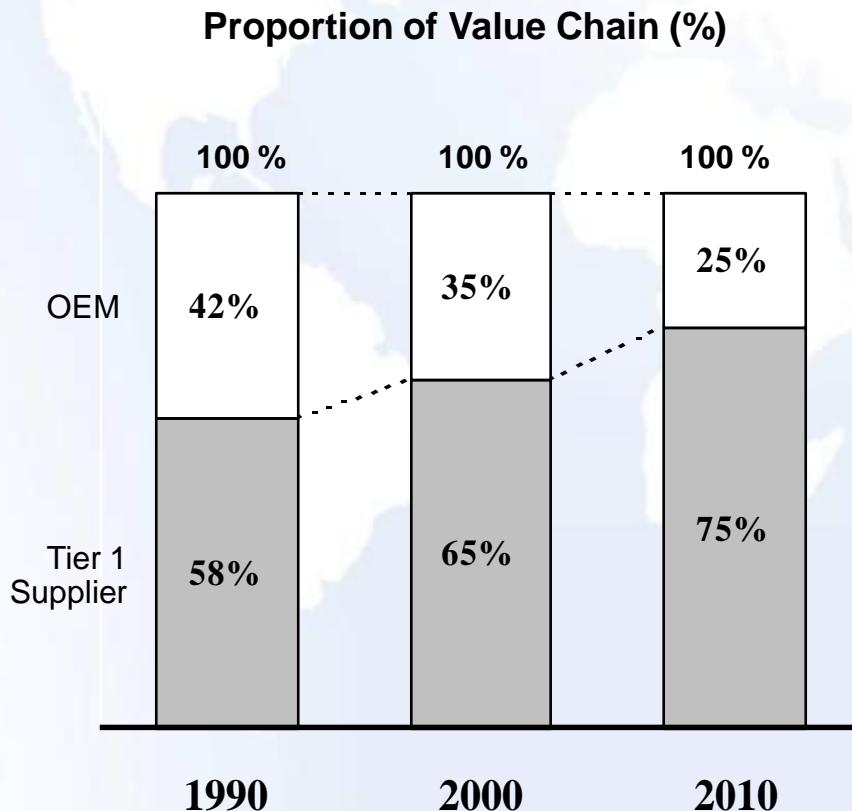
Examples

- BASF
- BAYER
- Boeing
- P&G
- Honeywell
- DuPont
- Dun & Bradstreet
- 3 Com
- Allied Domecq
- Allied Signal
- Anheuser Bush Inc
- Avis
- BAE Systems
- British American Tobacco
- Cadbury Schweppes
- Cargill
- Citigroup
- DOW Corning
- Ericsson Inc.
- Estee Lauder
- Fidelity
- Goodyear
- InBev
- Johnson & Johnson
- Kellogg's
- Lucent
- Lockheed Martin
- Marks & Spencer
- Mobile
- Nestlé
- Pfizer
- Philips Electronics
- Procter & Gamble
- CNA Insurance
- Siemens
- Sears
- Shell
- Smithkline Beecham
- Vivendi Universal
- Diageo
- Alcoa
- General Electric
- General Motors
- Kraft
- BP Amoco
- Prudential
- Bristol Myers-Squibb
- Monsanto
- Aetna Life and Casualty
- Deere and Company
- IBM
- Holiday Inn
- Honeywell
- Merck
- ITT
- Georgia Pacific
- Hewlett Packard
- Texas Instruments
- Reuters
- Rhone Poulenc
- Starbucks
- Sara Lee
- Tupperware
- Unilever
- Unisys

Value Chain and Support Processes

Decreasing Value Chain Proportion in modern OEM (Original Equipment Manufacturer)

Example

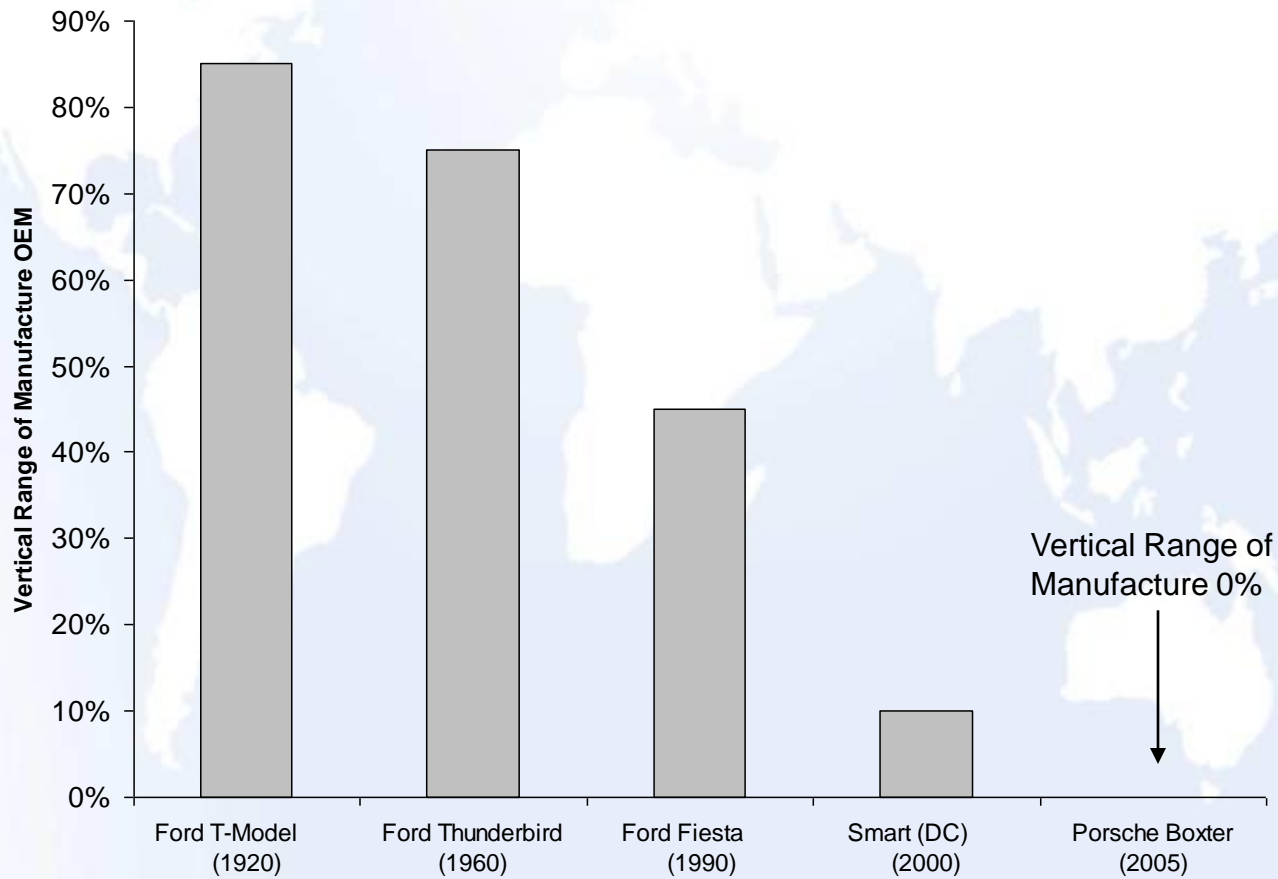


Situation
<ul style="list-style-type: none"> • In particular in the automotive and consumer goods industry vertical range of manufacture has been decreasing over the last two decades • Entire components and systems (in some cases even entire products) are produced and assembled by suppliers • The OEM just focus on core competencies such as Strategy, Marketing, Design, R&D, etc. • Operations and services processes outside the core are outsourced to specialized providers

Value Chain and Support Processes

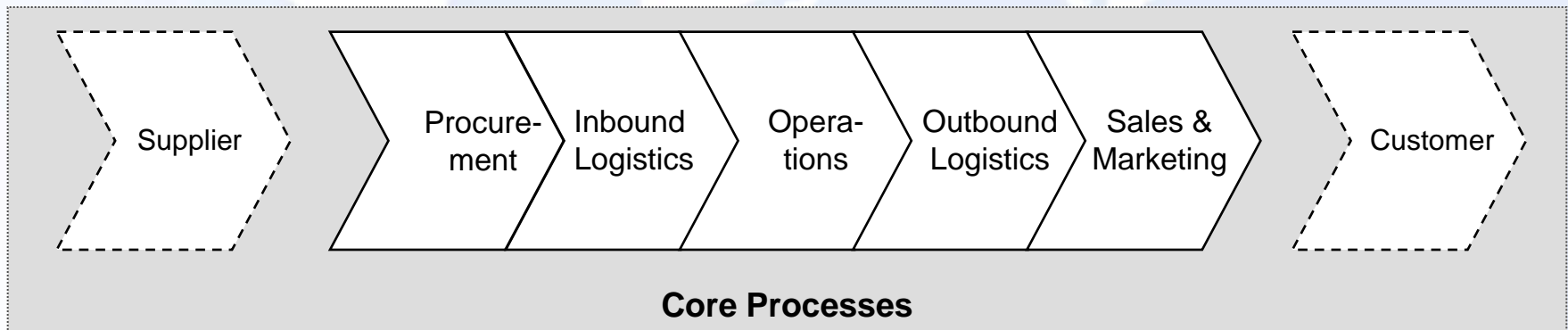
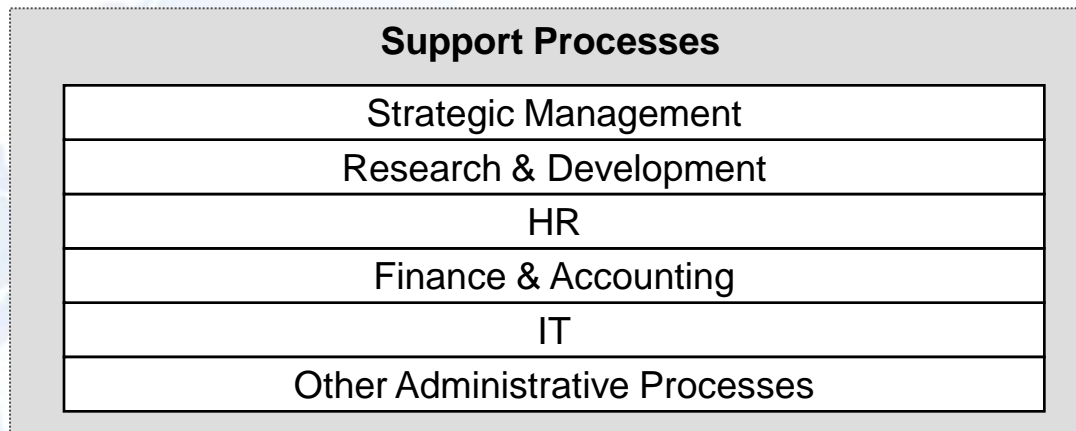
Vertical Range of Manufacture – in some cases close to zero

Example



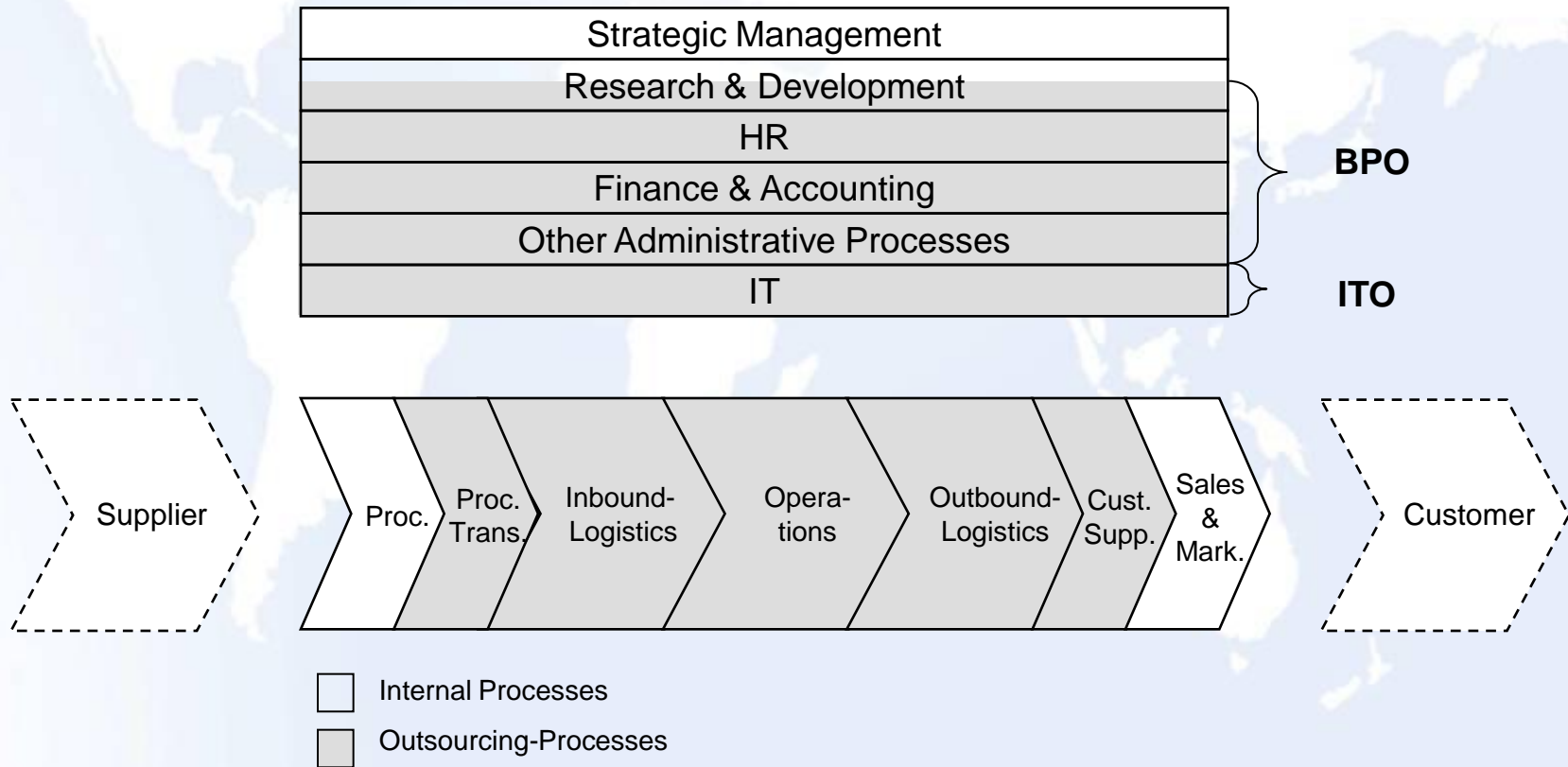
Value Chain and Support Processes

BPO now means Outsourcing of Support Processes



Value Chain and Support Processes

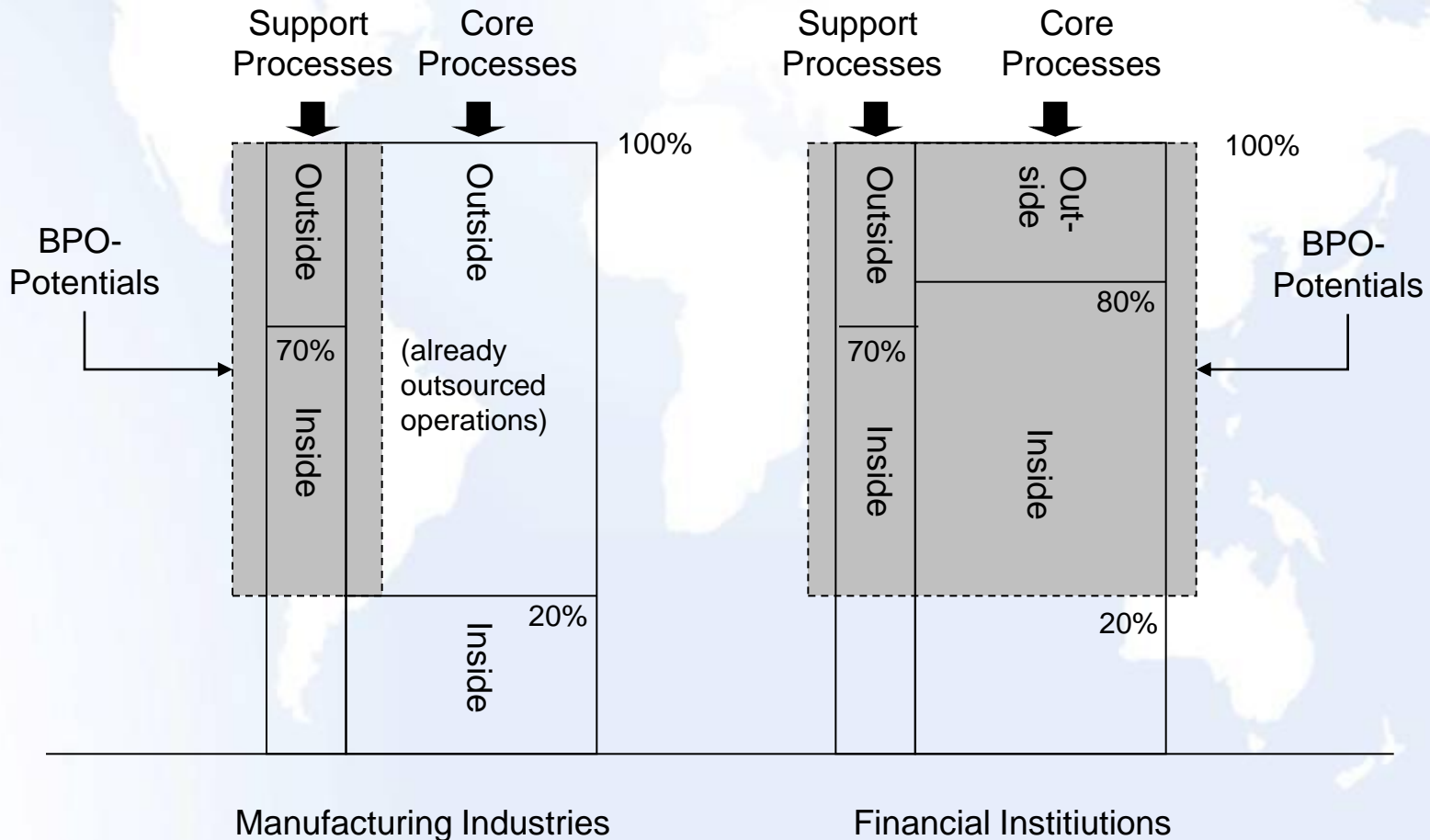
The complete Outsourcing Model (Theory)



Value Chain and Support Processes

BPO – Industry Comparison: Financial Institutions have potentials

Example



Value Chain and Support Processes

Drivers of BPO – Macro Perspectives

Business Drivers

- Slow economy is forcing corporations to focus on core competencies and search for cost-cutting opportunities in many areas simultaneously
- Corporations now understand outsourcing and are becoming comfortable with outsourcing more complex functions
- Enablers, such as Internet/Intranet technologies and ERP, are eliminating information and technology obstacles to BPO
- Multi-national corporations need to provide consistent service across the globe, but without the massive capital investment and associated challenges

Value Chain and Support Processes

Drivers of BPO – Micro Perspectives

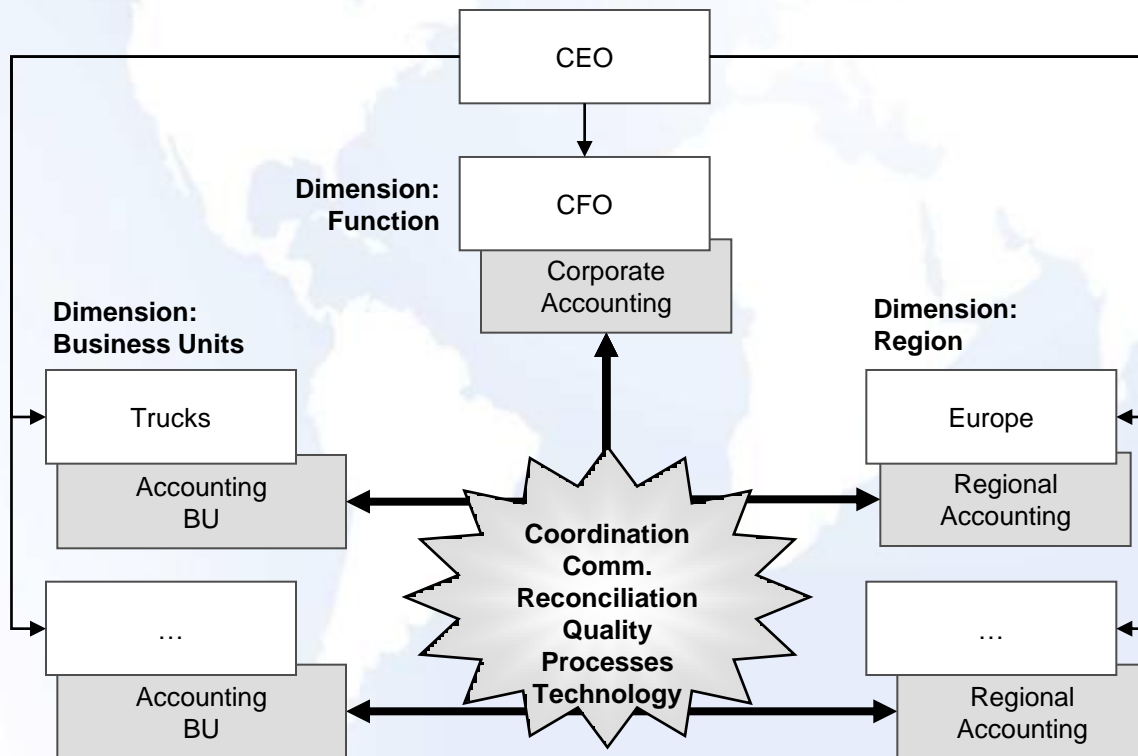
Business Drivers

- Strong trend to focus more on strategic issues and reap the best return on assets / dollars invested
- Companies are ensuring total customer focus by concentrating on core business processes and outsourcing the rest
- Compelling drive to minimize cost of transactional services through upper quartile process excellence aimed at maximizing efficiencies
- Many CXOs desire to create a back office that provides insight for critical decision making
- Growing need to ensure processes are operated in a scalable and modular fashion to accommodate future client growth
- Companies feel the need to dedicate assets invested in core competencies

The Path to intelligent Sourcing

Challenges of the decentralized back office

Example

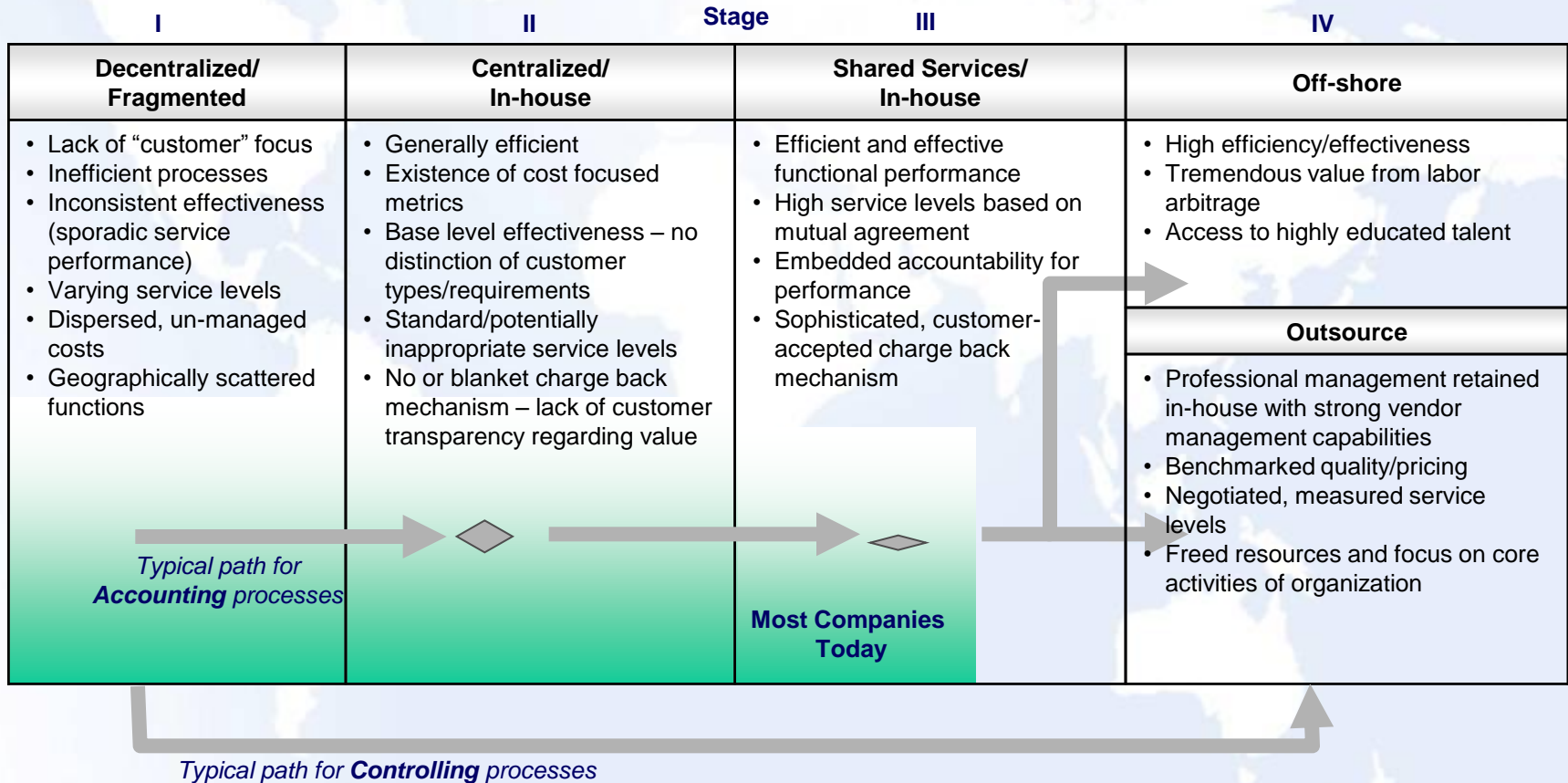


Accounting Departments	#
Country Accounting Trucks	100
Country Accounting Cars	100
Country Accounting Parts	100
Country External Reporting Consolidation	100
Regional External Reporting Consolidation	4
Regional Consolidated Reporting Cars	4
Regional Consolidated Reporting Parts	4
Regional Consolidated Reporting Business Units	3
Regional Consolidated Reporting	4
Corporate Consolidated Reporting	1
Sum Acc. Departments	420

➔ Large-scale multinational players often maintain more than 1.000 accounting departments with many redundancies and low efficiency

The Path to intelligent Sourcing

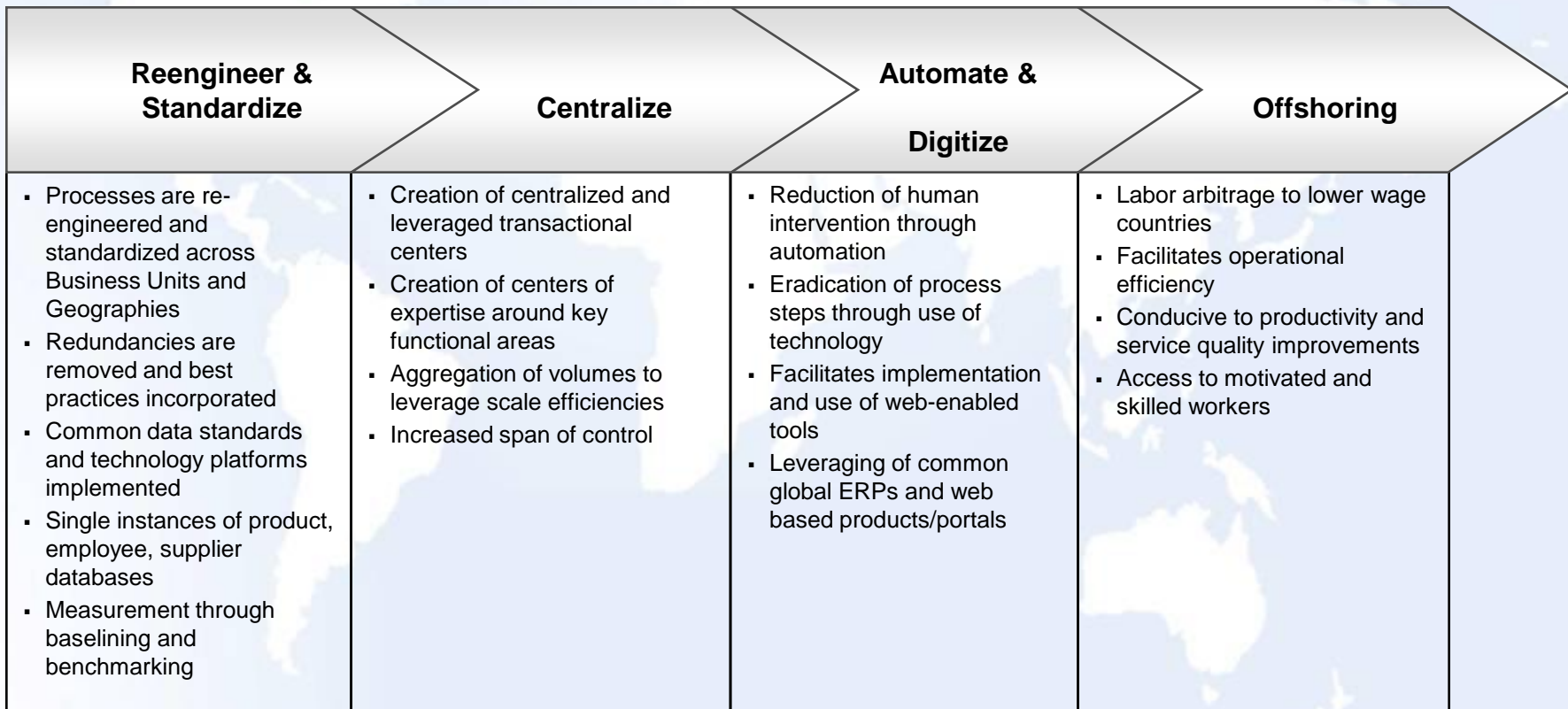
The Evolutionary Path to BPO and Offshoring



This transition is not necessarily linear — and a given company’s path will vary according to its individual situation

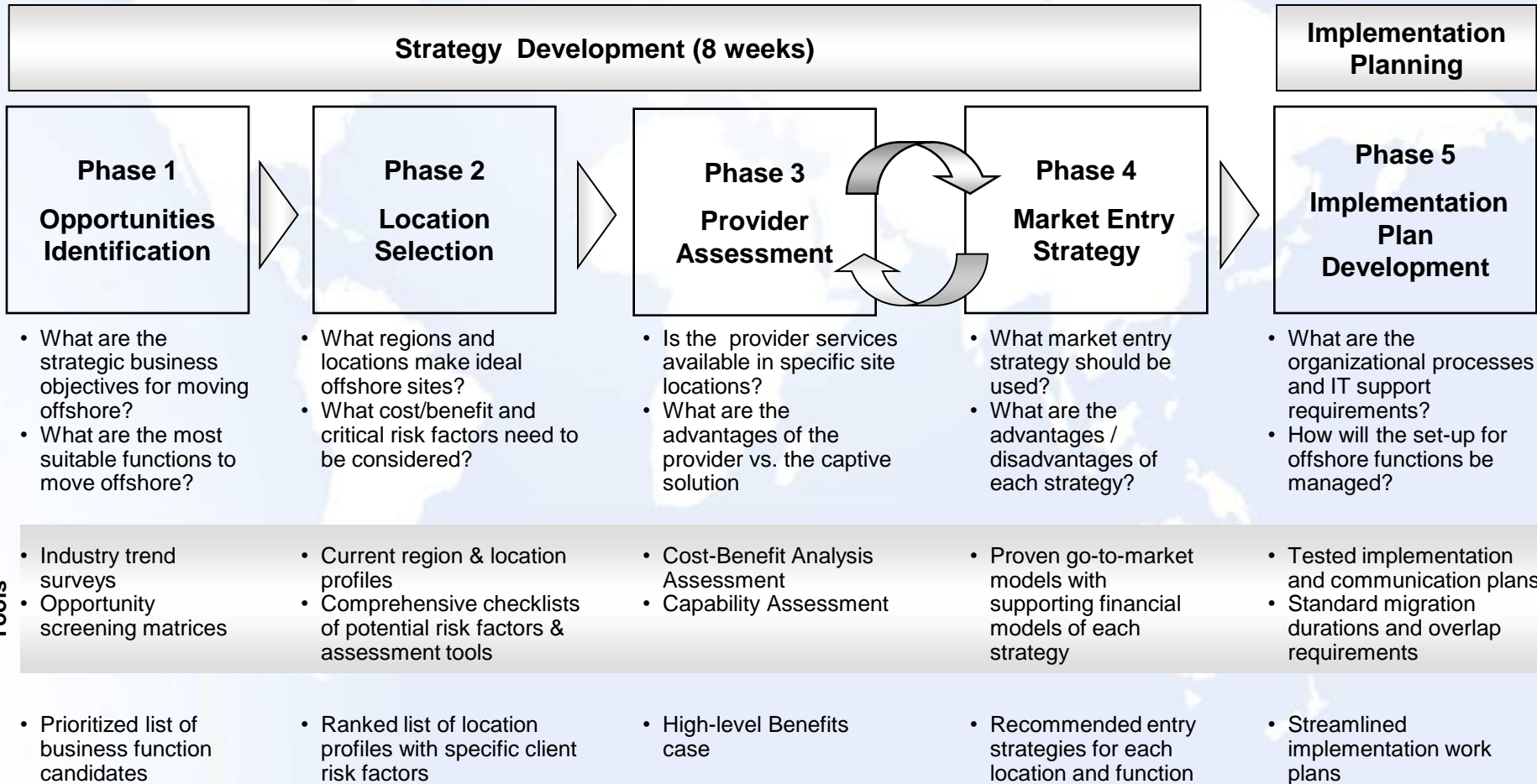
The Path to intelligent Sourcing

Shared Services – Approach to implement



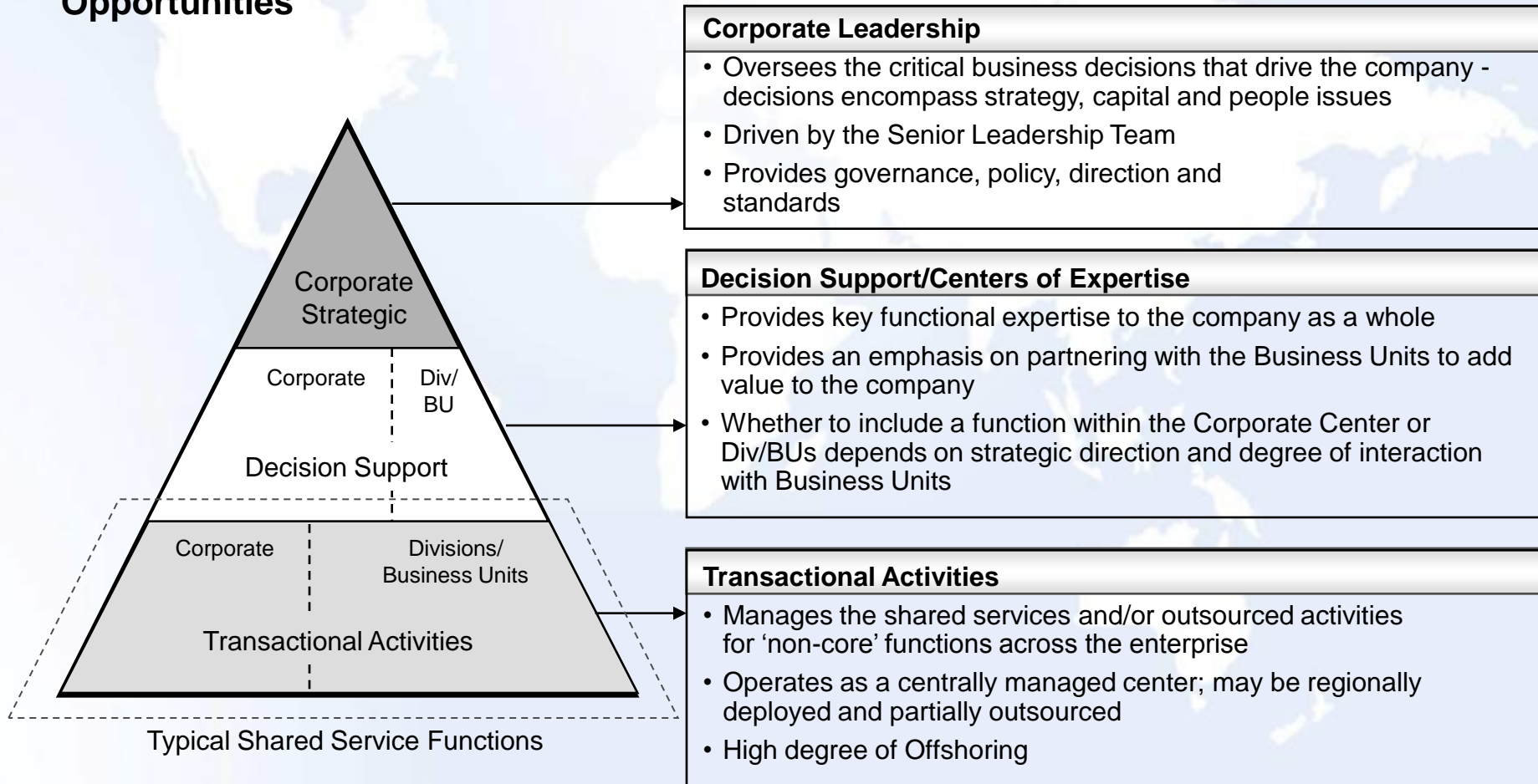
Evaluating Shared Service Potential

The typical Consulting approach consists of a Strategy phase (identification to conceptual design) and the implementation planning



Evaluating Shared Service Potential

Shared Services – Assessment Approach to identify Shared Service Opportunities

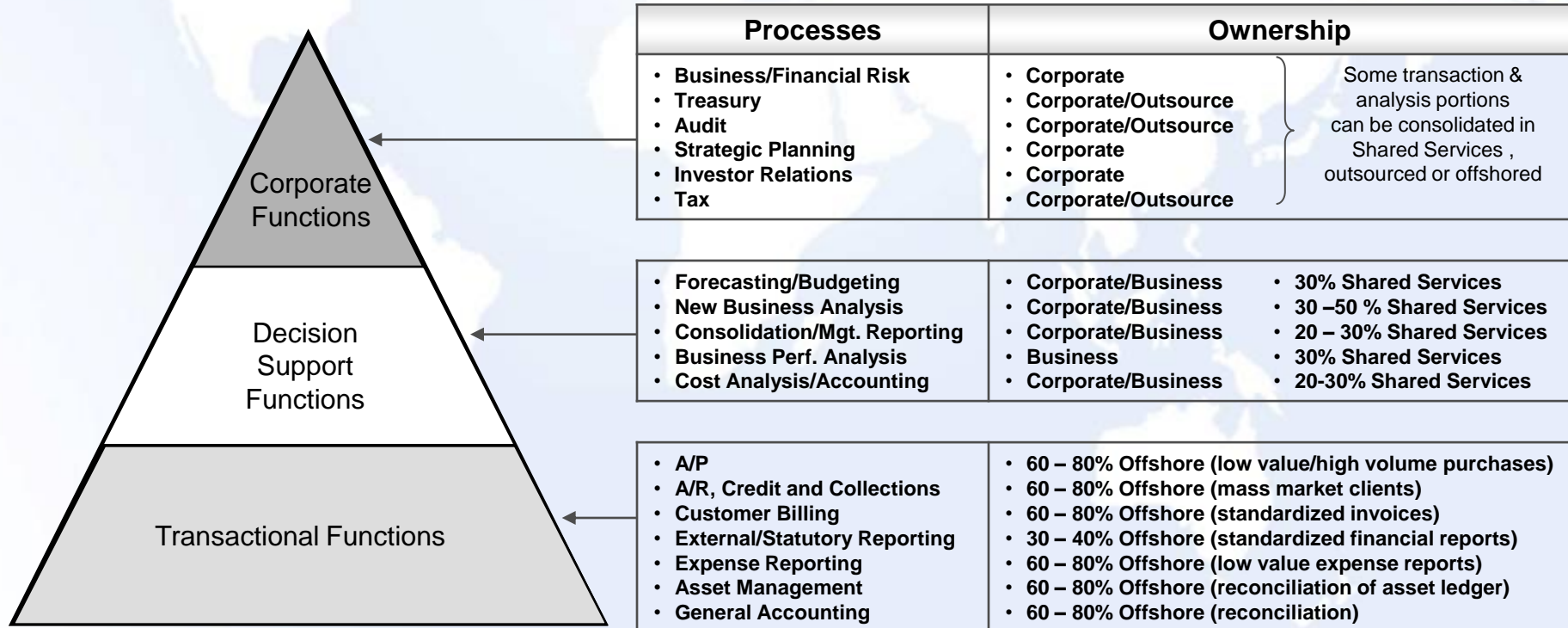


Evaluating Shared Service Potential

Transactional activities are more prone to Shared Services than other Finance functions

Example

Allocation of Ownership for Finance Processes



Evaluating Shared Service Potential

Shared Service characteristic

Business criticality

- Not a core competency
- Not a market differentiator



Standardization

- Well defined, processing structure



Transactional

- High volume, repeatable task



Customer facing

- Back office function



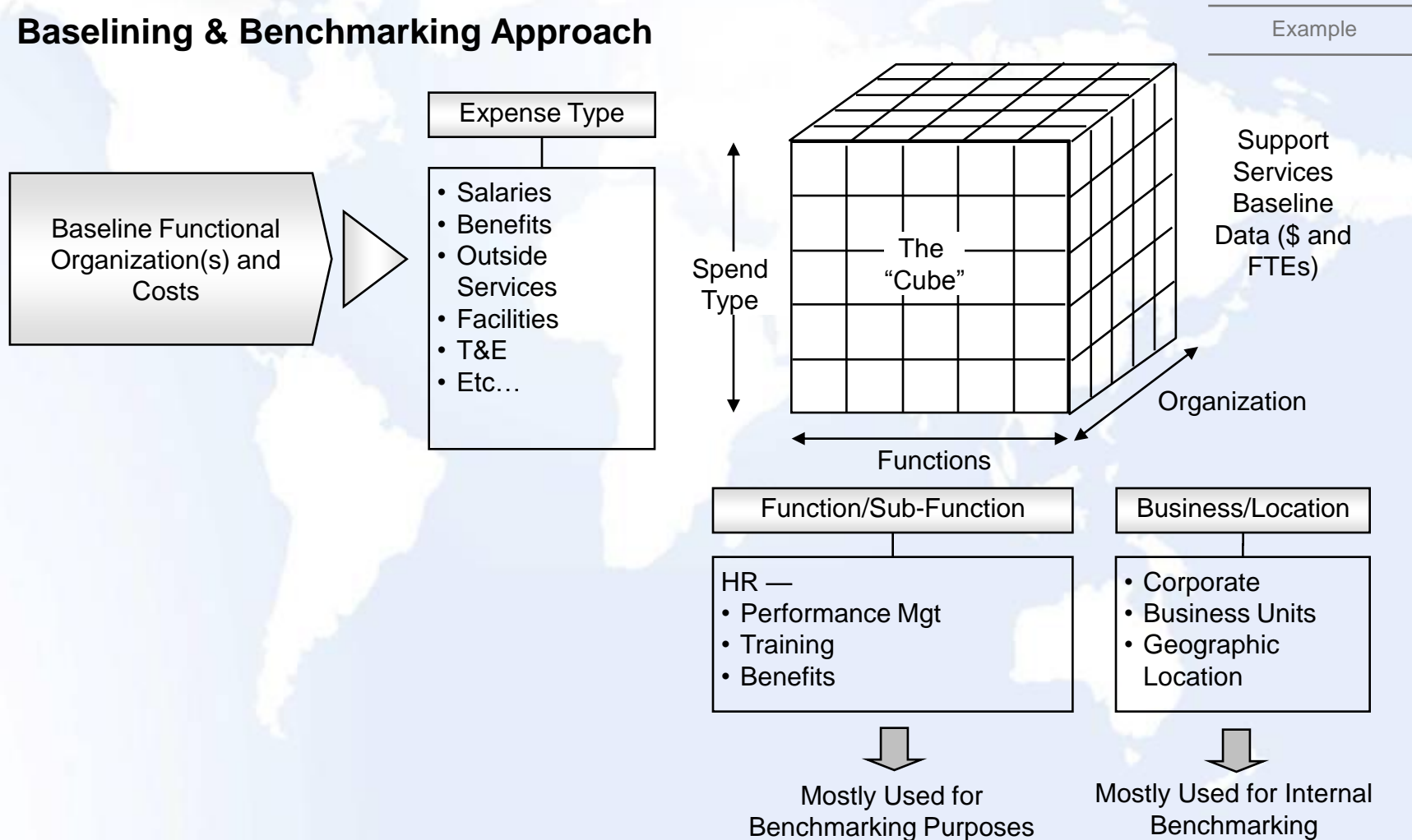
Technology leverage

- Ability to eliminate human intervention through use of technology
- Ease of automation



Evaluating Shared Service Potential

Baselining & Benchmarking Approach



Evaluating Shared Service Potential

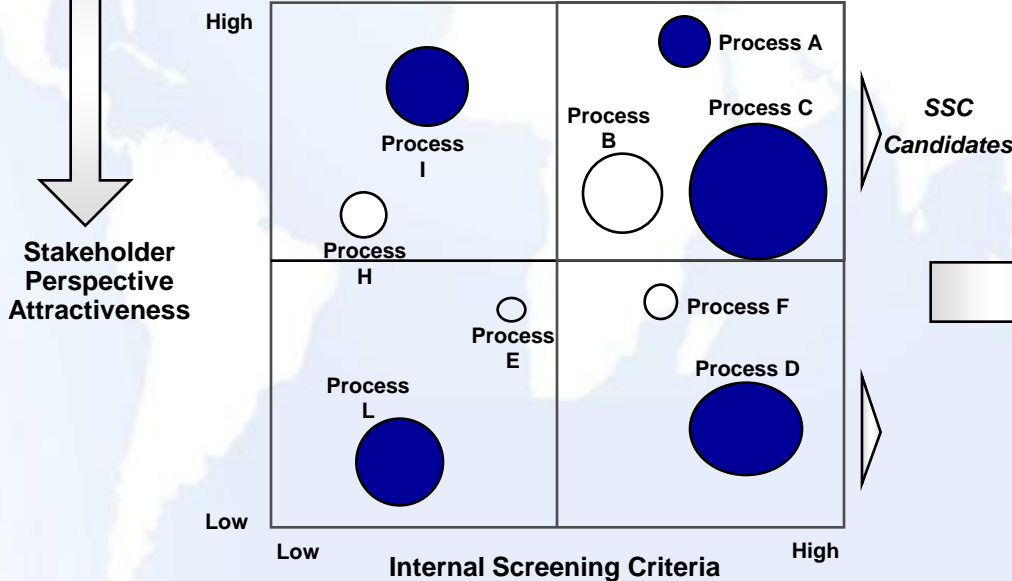
SSC – Decision Matrix

Example

1 Stakeholder Perspective

- Business Criticality
- Complexity of Process
- Level of Expertise Required
- Shared Service Potential
- Current Quality of Service
- Competitive Differentiator
- Shared Services Potential

Shared Services Prioritization and Decision Matrix



3 Shared Services Candidates & Process Improvement Opportunities

Prioritized SSC Candidates	
1.	Process A
2.	Process I
3.	Process B
4.	Process C
5.	Process F
6.	...
Process Redesign Opportunities (shaded circles)	
1.	Process A
2.	Process I
3.	Process L
4.	Process C
5.	Process D
6.	...

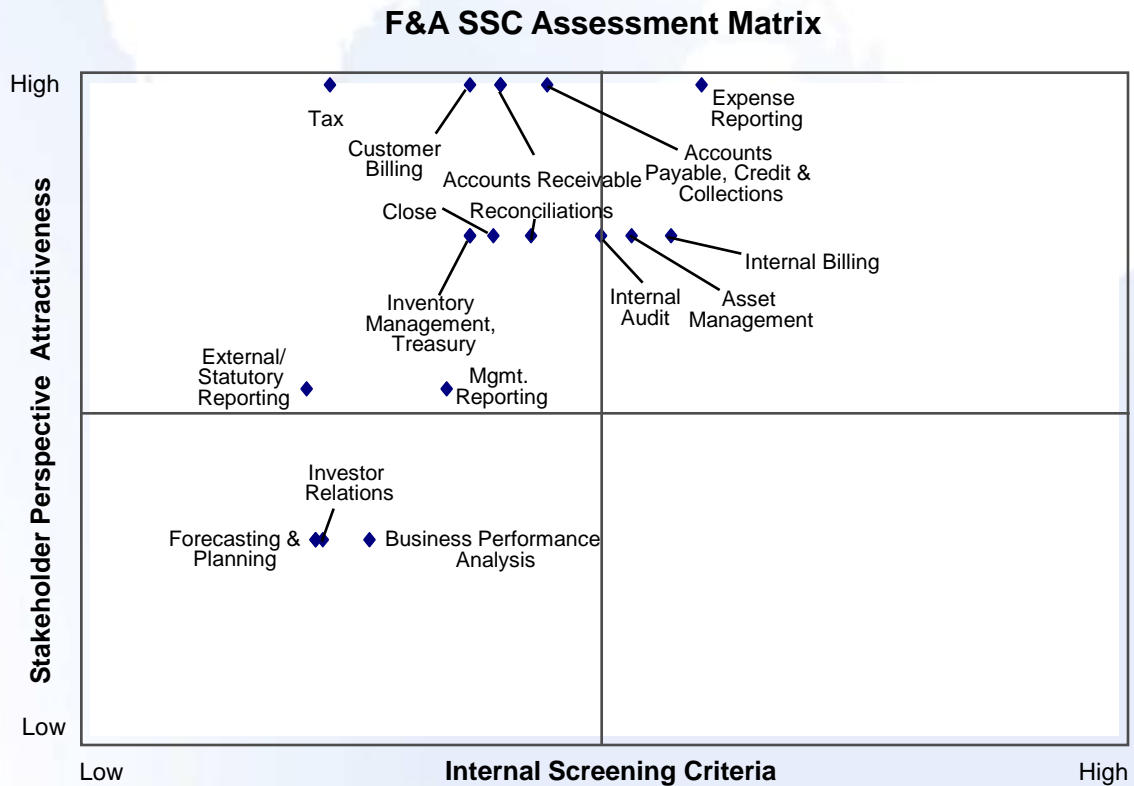
2 Internal/Market Analysis

- External Market Availability / Maturity
- Budget vs. Benchmark Analysis
- Technology Readiness
- Functional and Process Readiness
- Benefits Potential
- Ease of Implementation

Evaluating Shared Service Potential

Shared Service Candidates

Example



- | SSC Candidates |
|--|
| <ul style="list-style-type: none"> Expense Reporting Internal Audit Accounts Payable Asset Management Inventory Management General Accounting (Internal Billing, Reconciliations and Close) Tax Treasury Customer Billing, A/R, C&C Consolidation / Management Reporting |

- | Process Redesign Candidates |
|--|
| <ul style="list-style-type: none"> Planning Forecasting Business Performance Analysis |

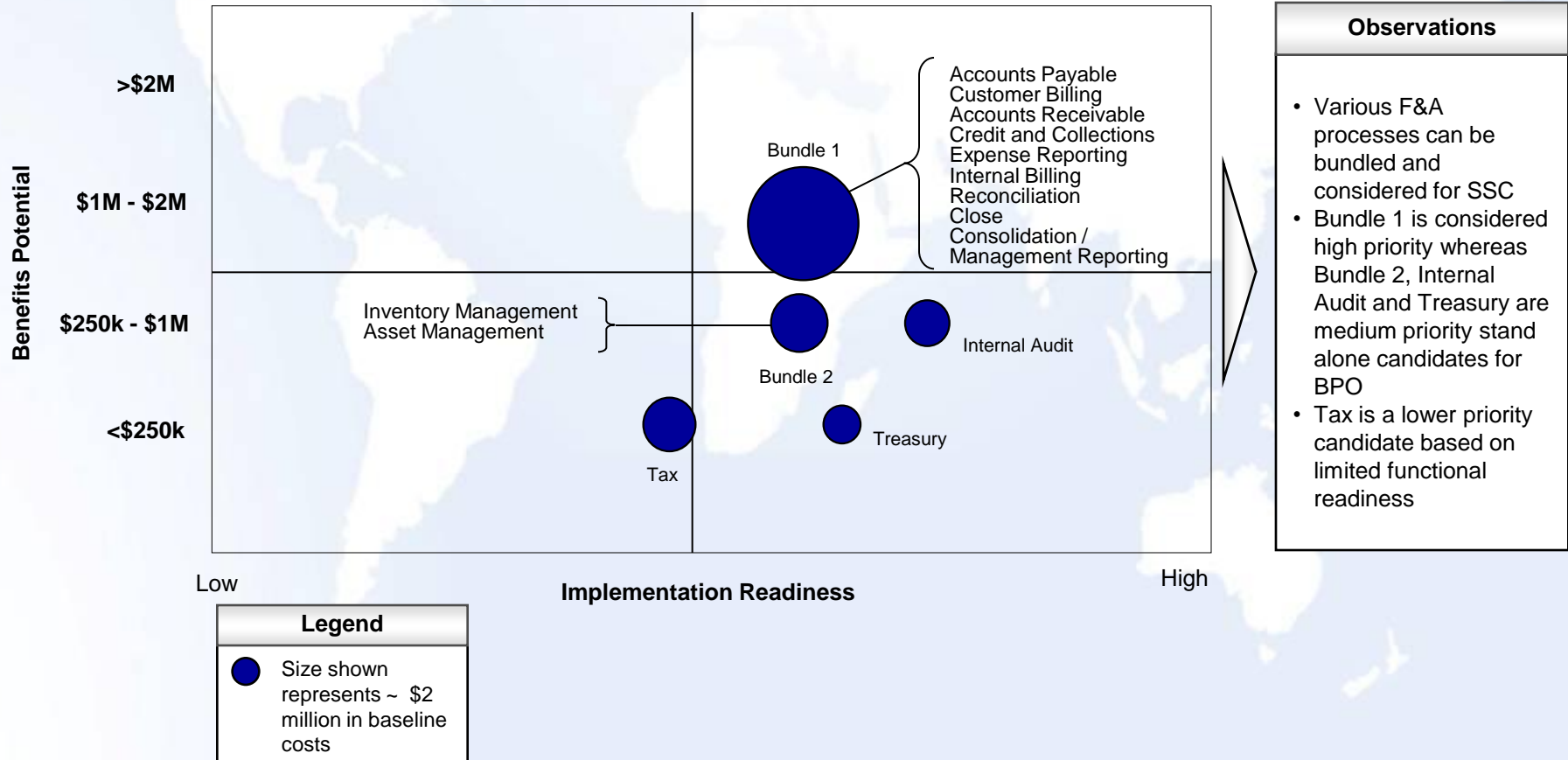
- | No Change Processes |
|--|
| <ul style="list-style-type: none"> None |

Evaluating Shared Service Potential

Shared Service Candidates need to be bundled

Example

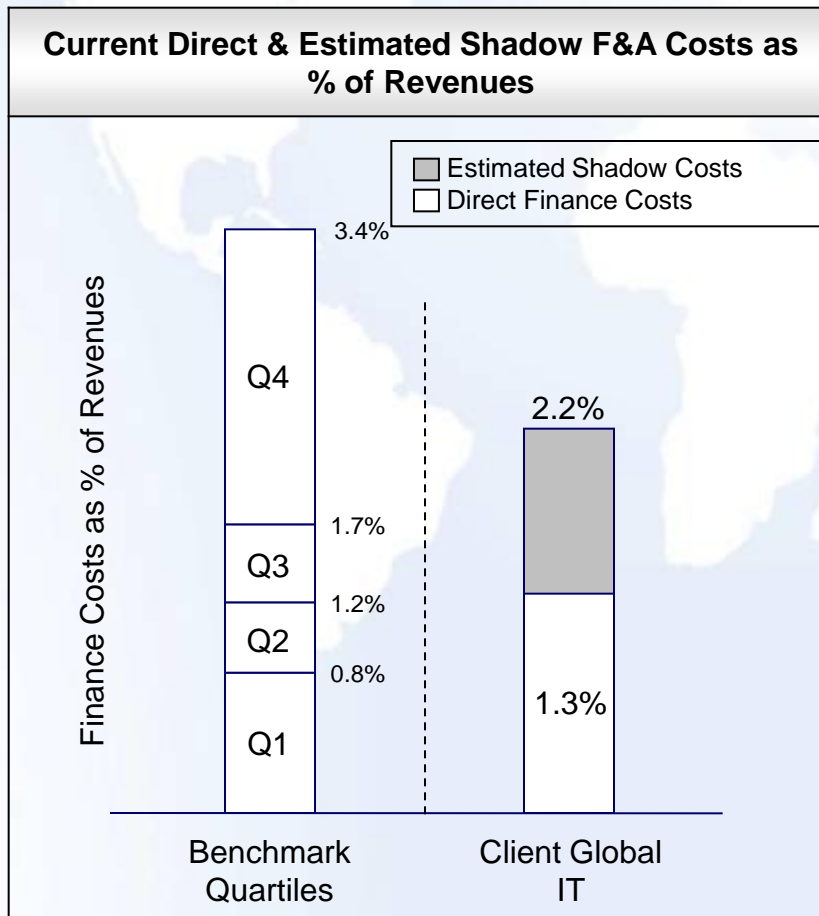
Bundled SSC Prioritization Matrix



Evaluating Shared Service Potential

Urgent Need for Cost Reduction

Global IT Company



Situation

- Client needs to reduce F&A costs by \$50M globally in order to reach average benchmark performance
- Lack of common ERP platform and inconsistent processes contribute to high F&A costs
- Inefficient processes result from lack of standardization and coordination

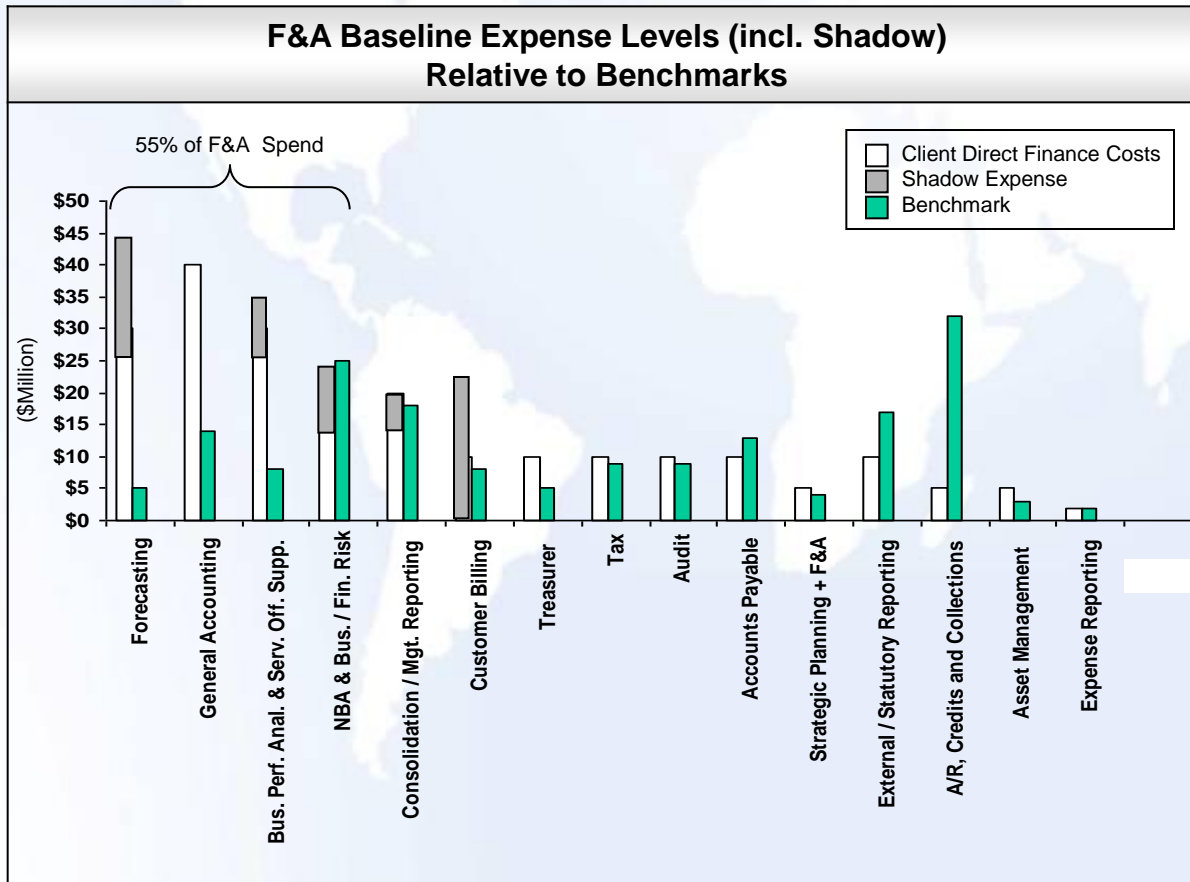
Shadow F&A Costs

- Extent of Shadow activities clearly indicate a high level of additional administrative burden for the Sales and Operations
- Sales and Operations are distracted by having to perform non value add activities

Evaluating Shared Service Potential

Understanding Improvement Potentials by Processes

Global IT Company



Key Observations

- **The 4 most resource intensive F&A processes are:**
 - Forecasting
 - General Accounting
 - Business Performance Analysis and Business Unit Support
 - New Business Analysis and Financial Risk

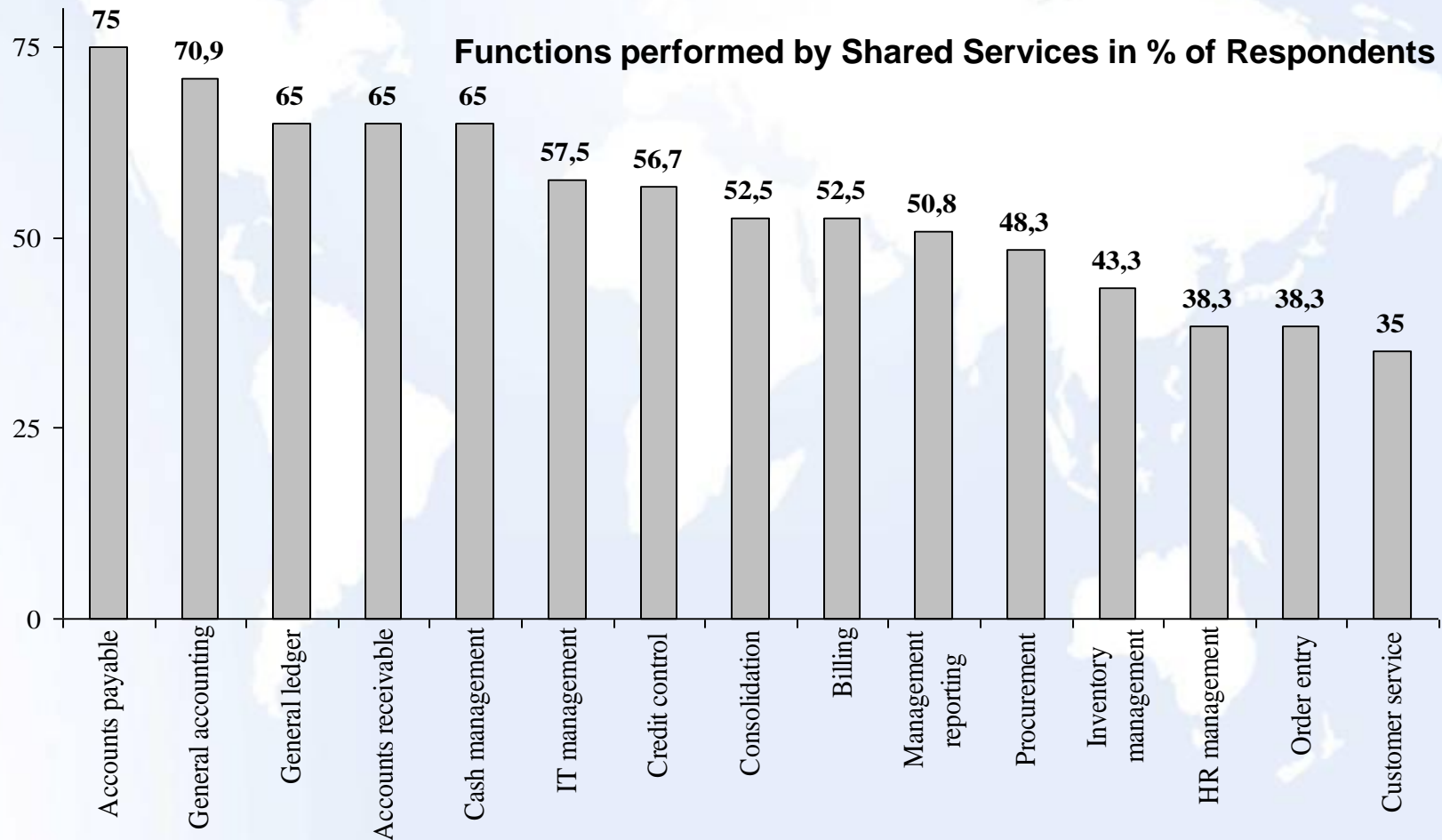
- **Processes with highest shadow costs are:**
 - Billing
 - Forecasting
 - New Business Analysis & Financial Risk
 - Business Performance Analysis & Business Unit Support

- **Higher savings potential in Decision Support processes rather than Transactional processes**

Evaluating Shared Service Potential

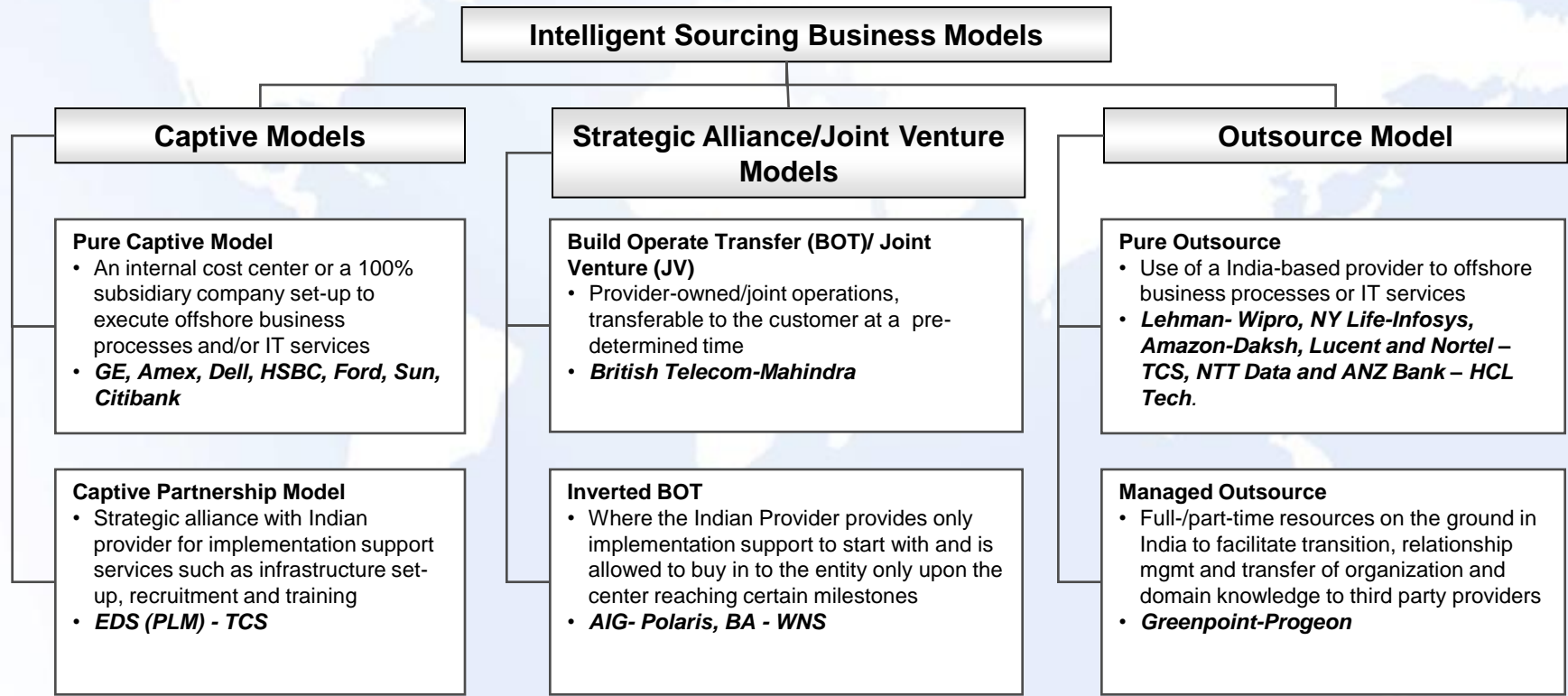
Shared Service Functions – Economist Intelligence Unit Study 1998

Study



Further Development to Offshoring and BPO

Although captive models currently dominate the Intelligent Sourcing market more and more BPO operating models are also being utilized



Further Development to Offshoring and BPO



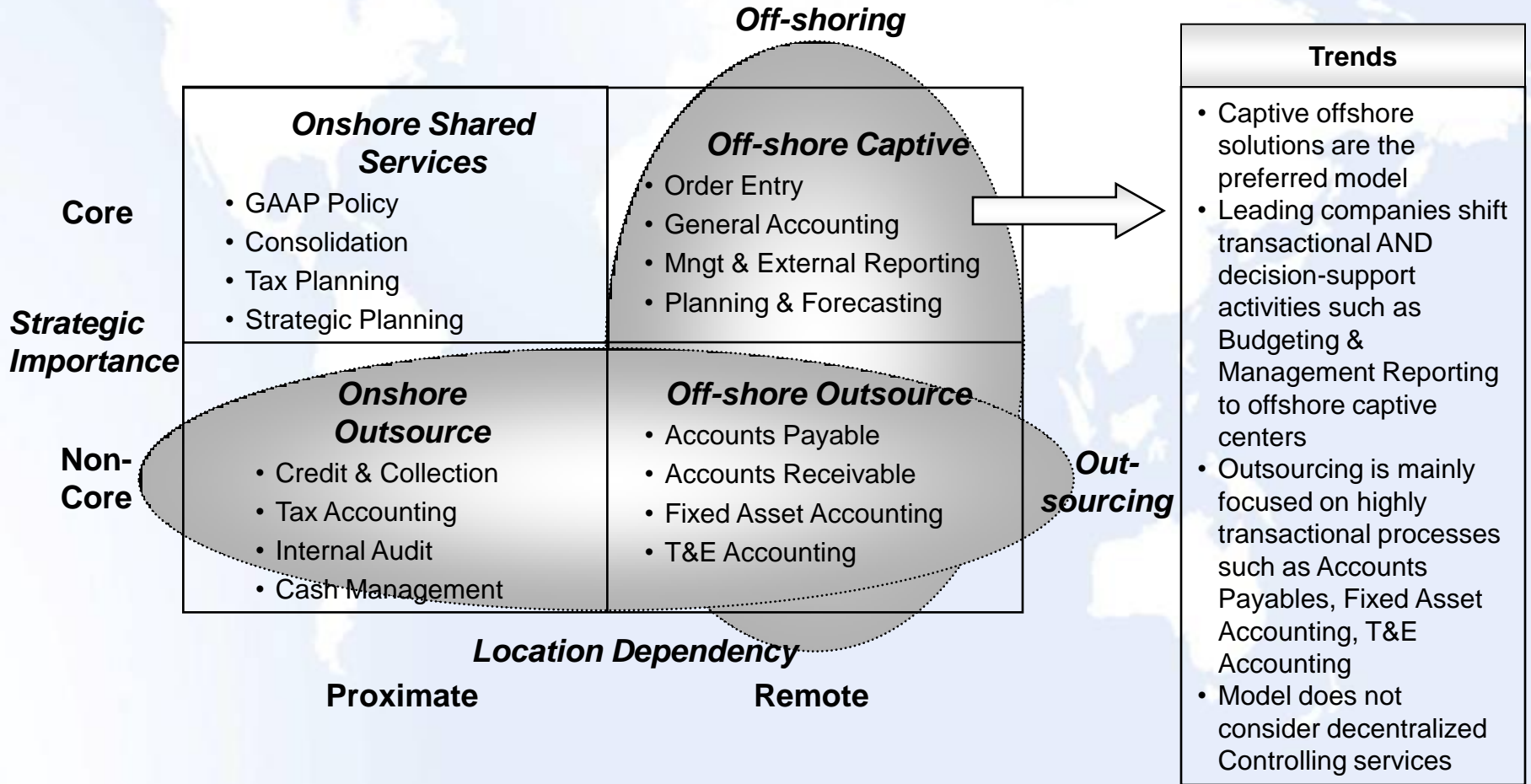
Offshoring Models - Comparison

Offshoring Model	Advantages	Disadvantages
Captive	<ul style="list-style-type: none"> n Largest cost savings n Lowest risk to data and intellectual capital security n Maintains culture and process expertise 	<ul style="list-style-type: none"> n Longest time to achieve maturity and generate savings n Highest investments and exit costs
Outsource	<ul style="list-style-type: none"> n Leverages provider familiarity with offshore operations n Influence of scale n Low exit costs n Optimizes expertise by function 	<ul style="list-style-type: none"> n Providers lack scale to serve company's needs n Complexity of managing multiple relationships n Cultural differences
Strategic Alliance/ Joint Ventures	<ul style="list-style-type: none"> n Limited investment required n Lower business risk due to partner's process experience n Deep process migration expertise n Easier to implement global, multi-country solution 	<ul style="list-style-type: none"> n Lower operational control n Partner may be unfamiliar with offshore marketplace n More limited skill transfer n Potential competitive issues n There may be many other customers

Further Development to Offshoring and BPO

Delivery Options – Finance Shared Services, BPO and Offshoring

Illustrative

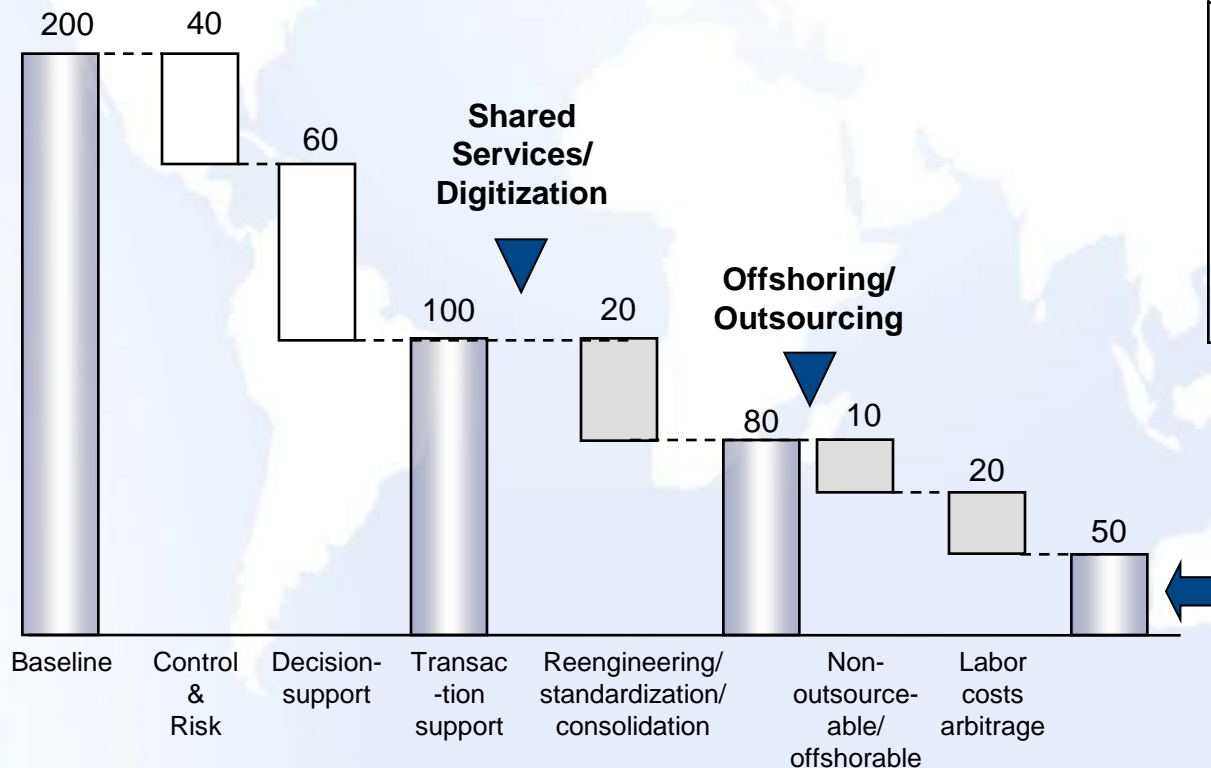


The Economic Perspective

The Benefits Case

Example

Finance & Accounting spend (\$ million)



Rationale
<ul style="list-style-type: none"> Corporate and Decision-Support Activities are not considered for Shared Services Reengineering and lower labor costs are the major cost advantages

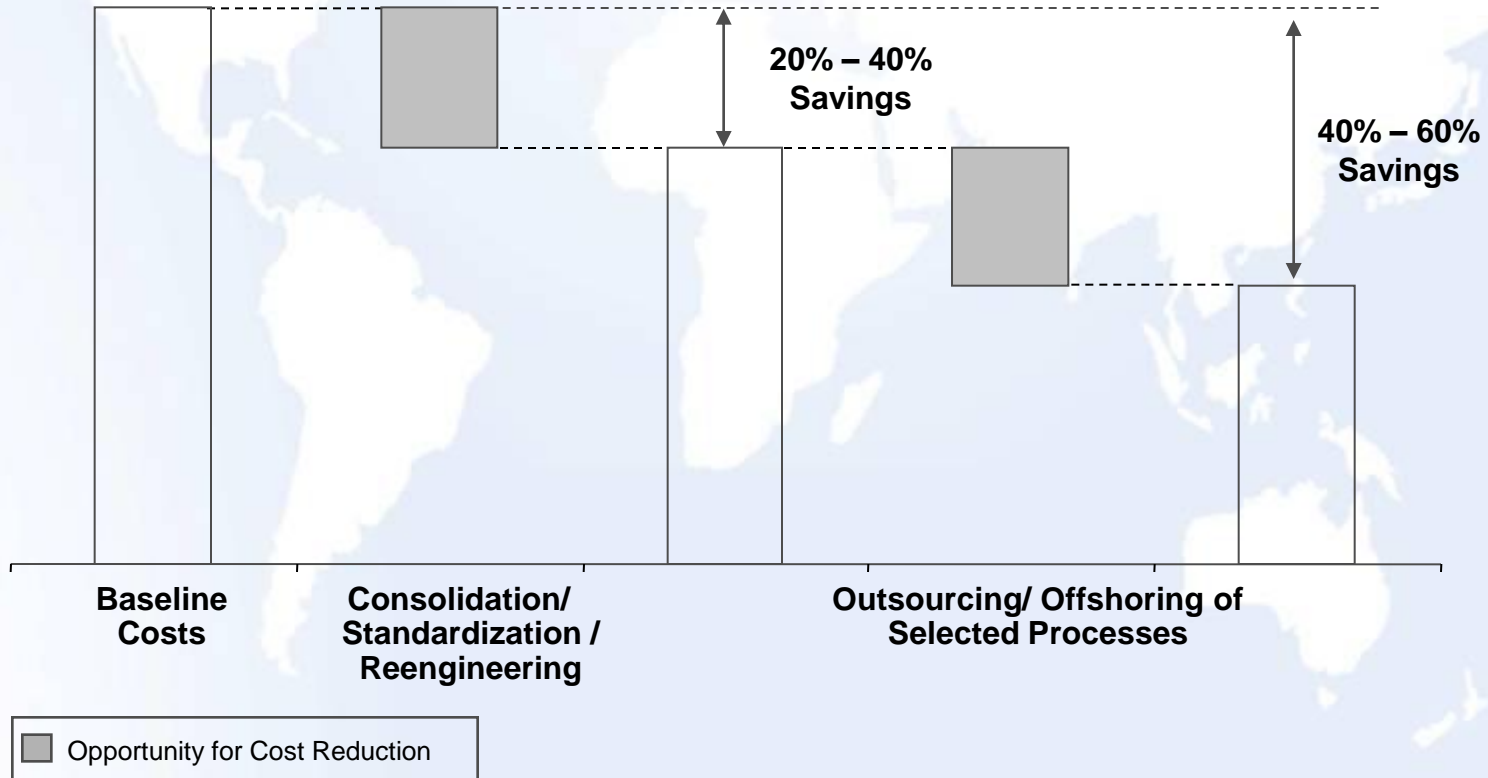
Costs for Shared Service Center (Offshore location)

= Savings

The Economic Perspective

However, Reengineering also contributes significantly in SSC Engagements

Example

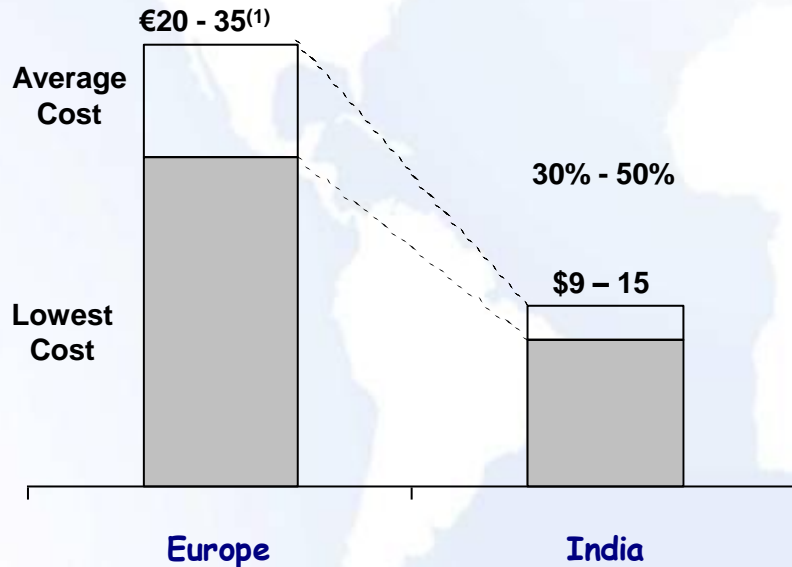


The Economic Perspective

Besides Labor cost arbitrage there are productivity improvements

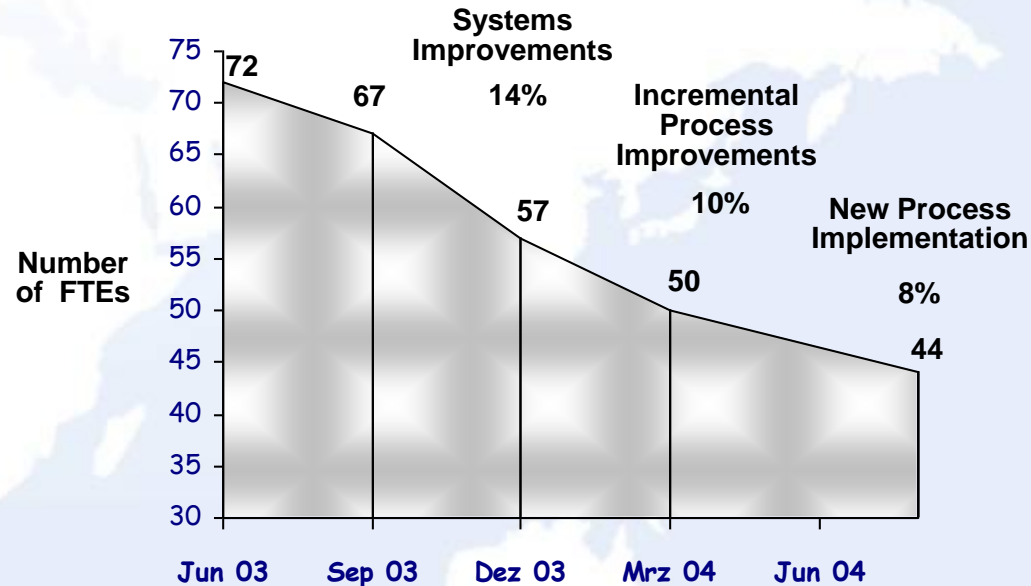
Example

**Total Cost Differential – U.S. vs. India
Example (Hourly Rate Per Agent)**



**Learning Curve
7%**

Productivity Gains



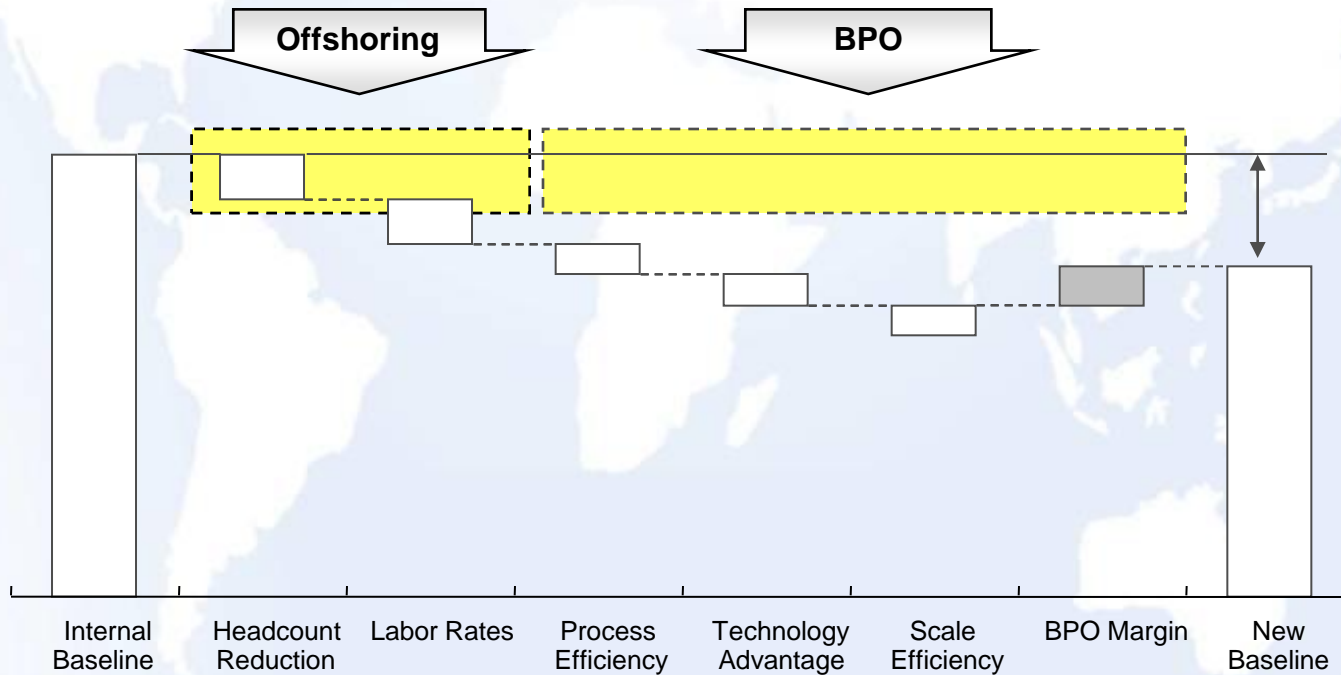
Productivity increases are obtained through leveraging a highly skilled workforce while emphasizing continuous improvement, Six Sigma, and other quality control programs

Notes (1*): Cost per FTE varies depending on the location of the facility and the nature of work performed (includes labor, benefits, telecom & overhead)

The Economic Perspective

Labor rates are often being the biggest contributor to Cost Savings

Example

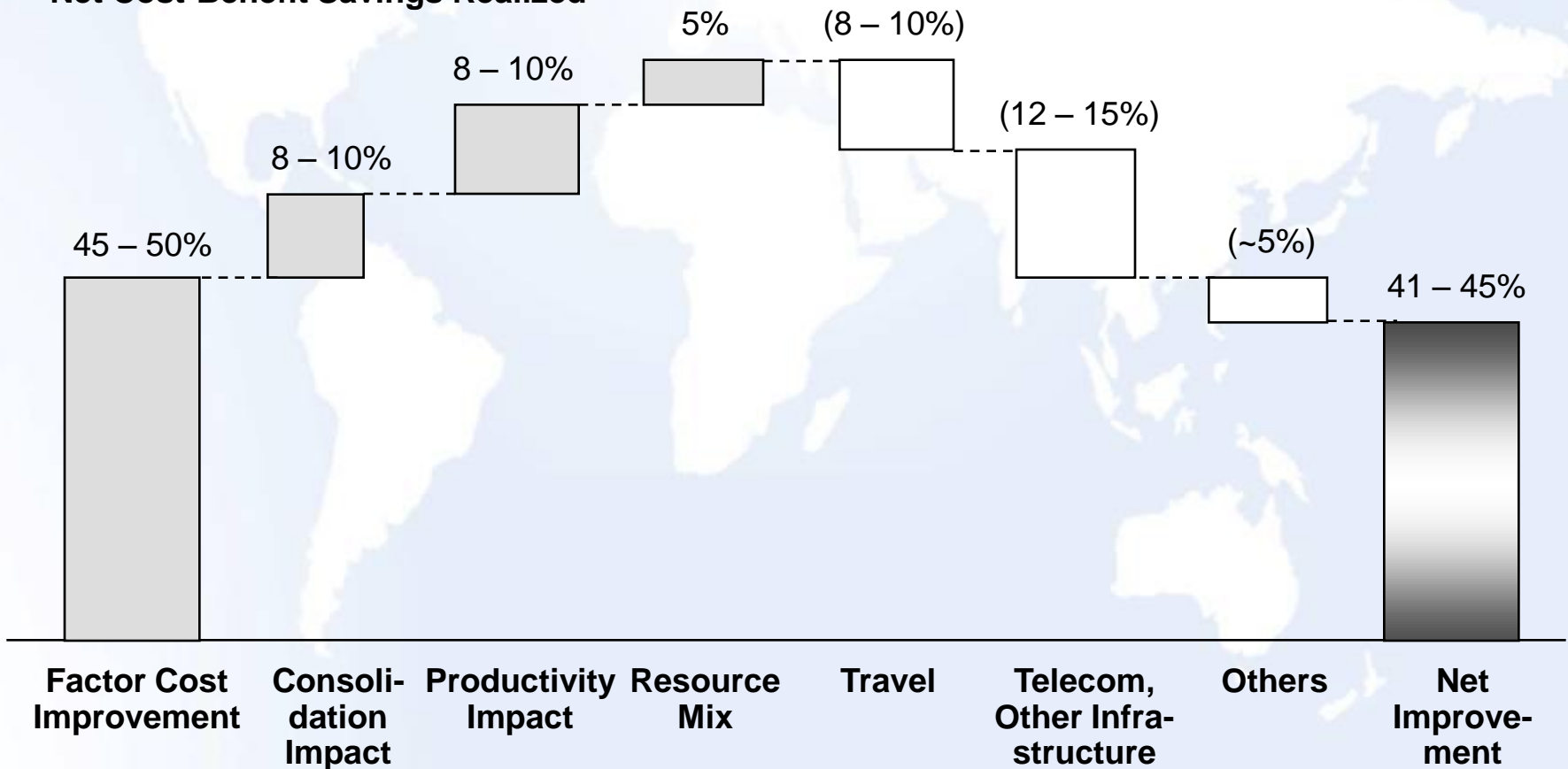


The Economic Perspective

Offshoring – The overall Benefits Case

Illustrative

Net Cost-Benefit Savings Realized

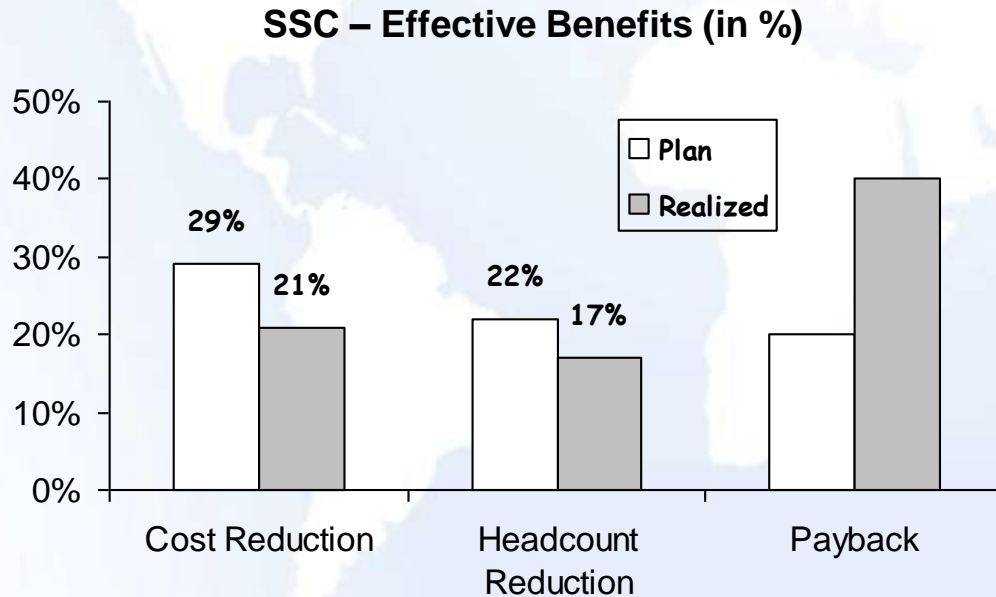


The Economic Perspective

Realized Benefits and Organizational Integration

PA Consulting

Comments
<ul style="list-style-type: none"> PA Consulting's Benchmarking Study underlines that realized benefits fall substantially short of initial objectives – despite all the buzz around Shared Services successes However, in terms of Payback most companies realize a shorter implementation time span than initially planned

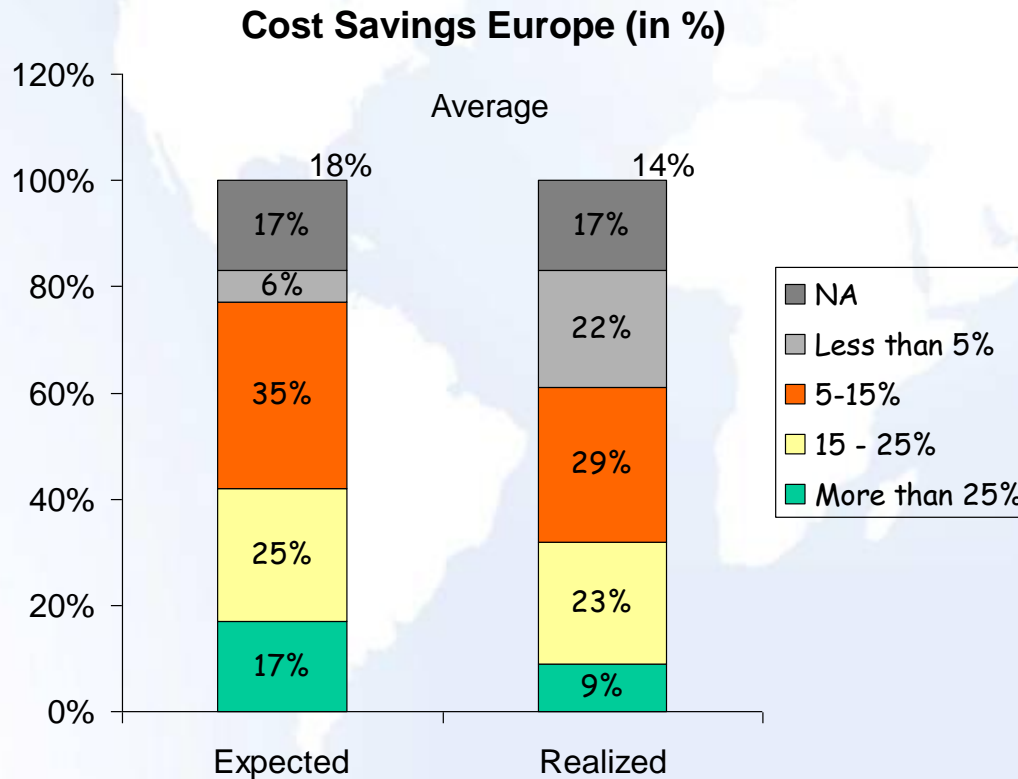


Source: Benchmarking shared service centres survey, PA Consulting Group, 2002

The Economic Perspective

Realized vs. planned Benefits

A.T. Kearney



Comments
<ul style="list-style-type: none"> A.T. Kearney confirms the shortfall in realized savings – of the initially planned 18% cost savings only 15% could be realized on average However, almost 2/3 of the analyzed companies report a minimum of 5% cost savings The majority of the companies still reports issues regarding trust in delivery capabilities and quality of Shared Service performance

Source: Success through Shared Services, A.T. Kearney Whitepaper 2004

The Economic Perspective

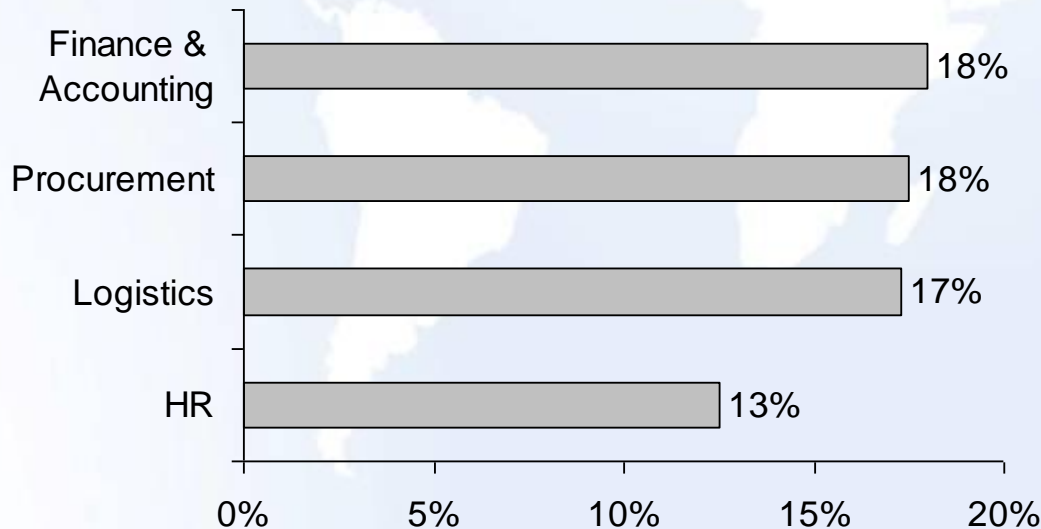
BPO Processes – Comparison of Acceptance Rates

DB Research

BPO Processes for Offshoring (570 Companies in GER, AT, CH)

Question:

“Which of the BPO processes are partly offshored or will be offshored in the near future?”



Comments
<ul style="list-style-type: none"> • Finance & Accounting is on top of the list of processes offshored • Generally, the acceptance rate for BPO is lower than for ITO. <p>Major reasons are:</p> <ul style="list-style-type: none"> - Missing trust - Uncertainty about service levels - Process complexity - Regulatory issues - Change Management

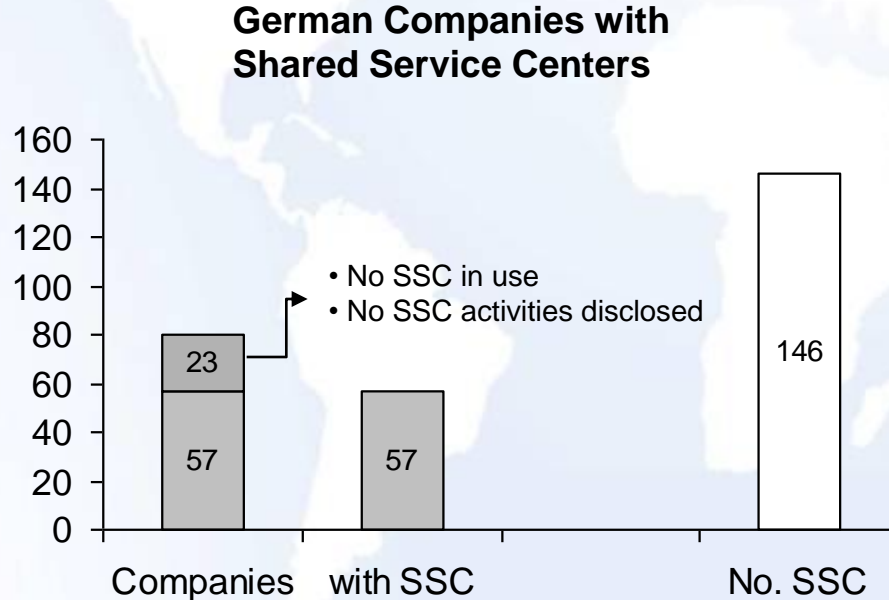
Source: Deutsche Bank Research, June 14, 2005, Nr. 52



The Economic Perspective

Acceptance Rate for SSC in Top German Companies

Offshoring Institute



Source: www.offshoring-institute.org/research

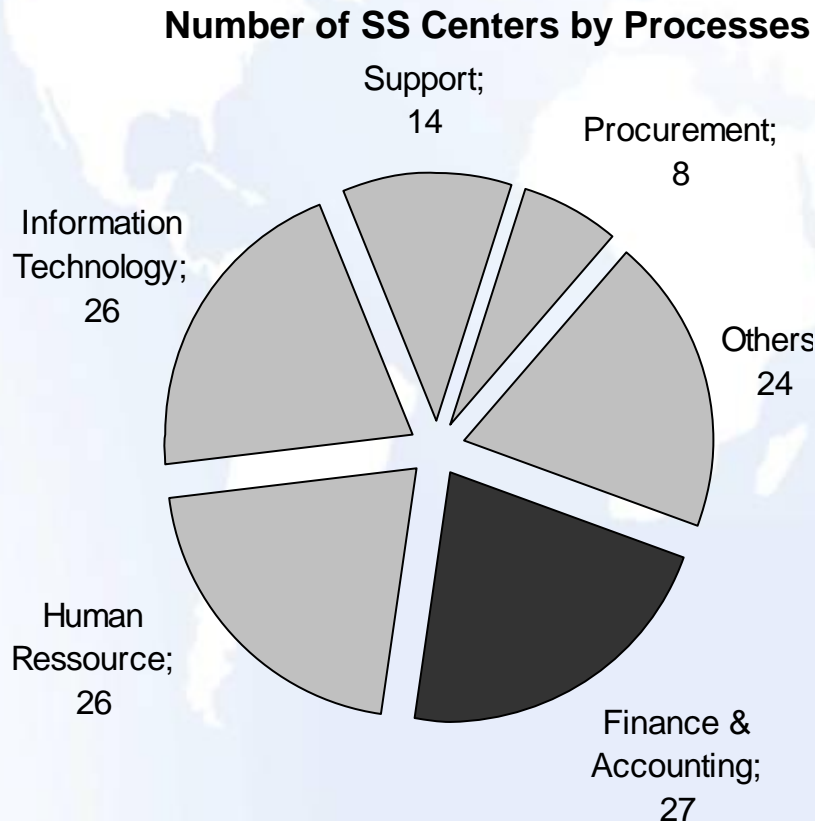
Comments

- With 57 out of 79 companies reporting Shared Service activities the concept is well adapted among German large companies
- Overall, the top 80 German companies operate 146 centers (125 centers, some with multiple locations)
- Shared Service Centers cover a wide variety of back office services ranging from Finance & Accounting to HR and Procurement
- Almost half the SSC (69) are still located in Germany and often just simple centralizations of back office operations with the firm's headquarter operation

The Economic Perspective

Typical SSC Functions

Offshoring Institute



Comments

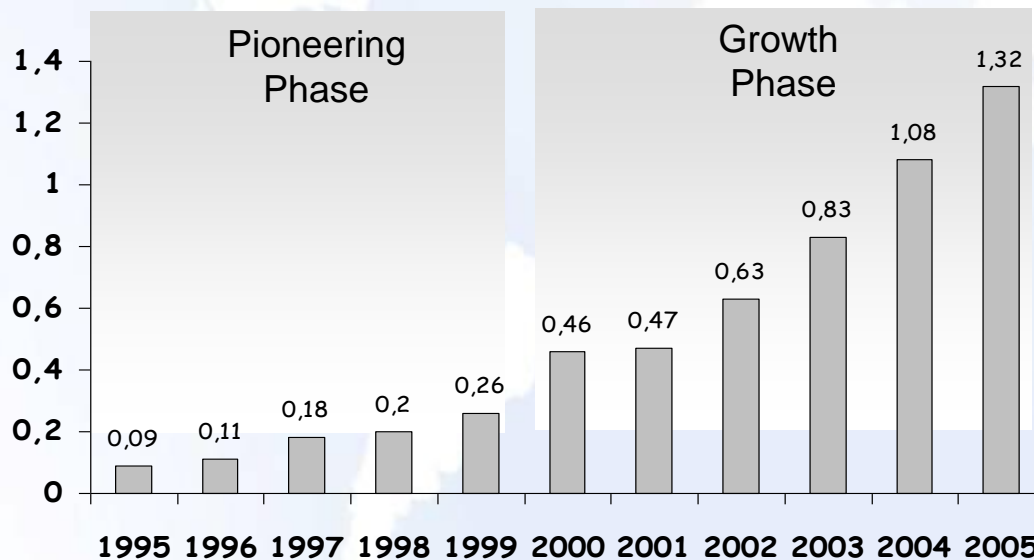
- The top German companies are running 27 Finance & Accounting Shared Services and Outsourcing Operations
- The top 3 processes (F&A, HR, IT) cover 79% of all Shared Services being established so far
- Therefore, large-scale companies need to find ways to arrange the governance structure in order to manage Shared Service and Outsourcing operations effectively

The Economic Perspective

Growth of the Finance & Accounting Outsourcing Market

Everest

Finance & Accounting Outsourcing Revenues per year (in billion \$)



Source: Finance Accounting Outsourcing Annual Report, Everest Research Institute, 2005; The Economist Briefing Paper Shared Services, Economist 2003

Comments

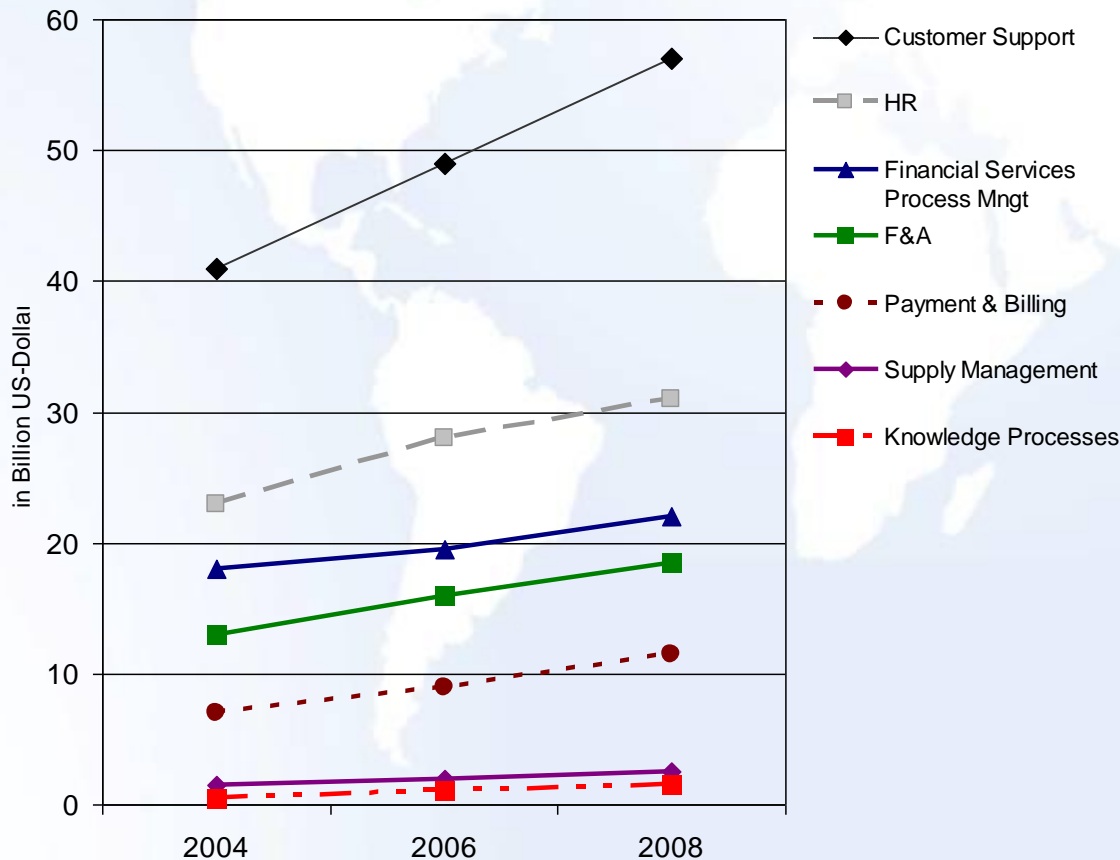
- Everest estimates the overall volume of Finance & Accounting Outsourcing to approximately \$1,3 billion in 2005
- The initial assessments of the BPO market of \$26 billion¹ highlights that the predominantly chosen option to set up transformed F&A operations are captive Shared Services
- East European locations are still the preferred locations of European companies because of cost advantages and multilingual skill availability although cost advantages are starting to erode

1) IDC, World-wide BPO Outsourcing Forecast and Analysis Report, 2002

The Economic Perspective

Business Insight

Market Size for BPO in \$ Billion



Source: Business Insight

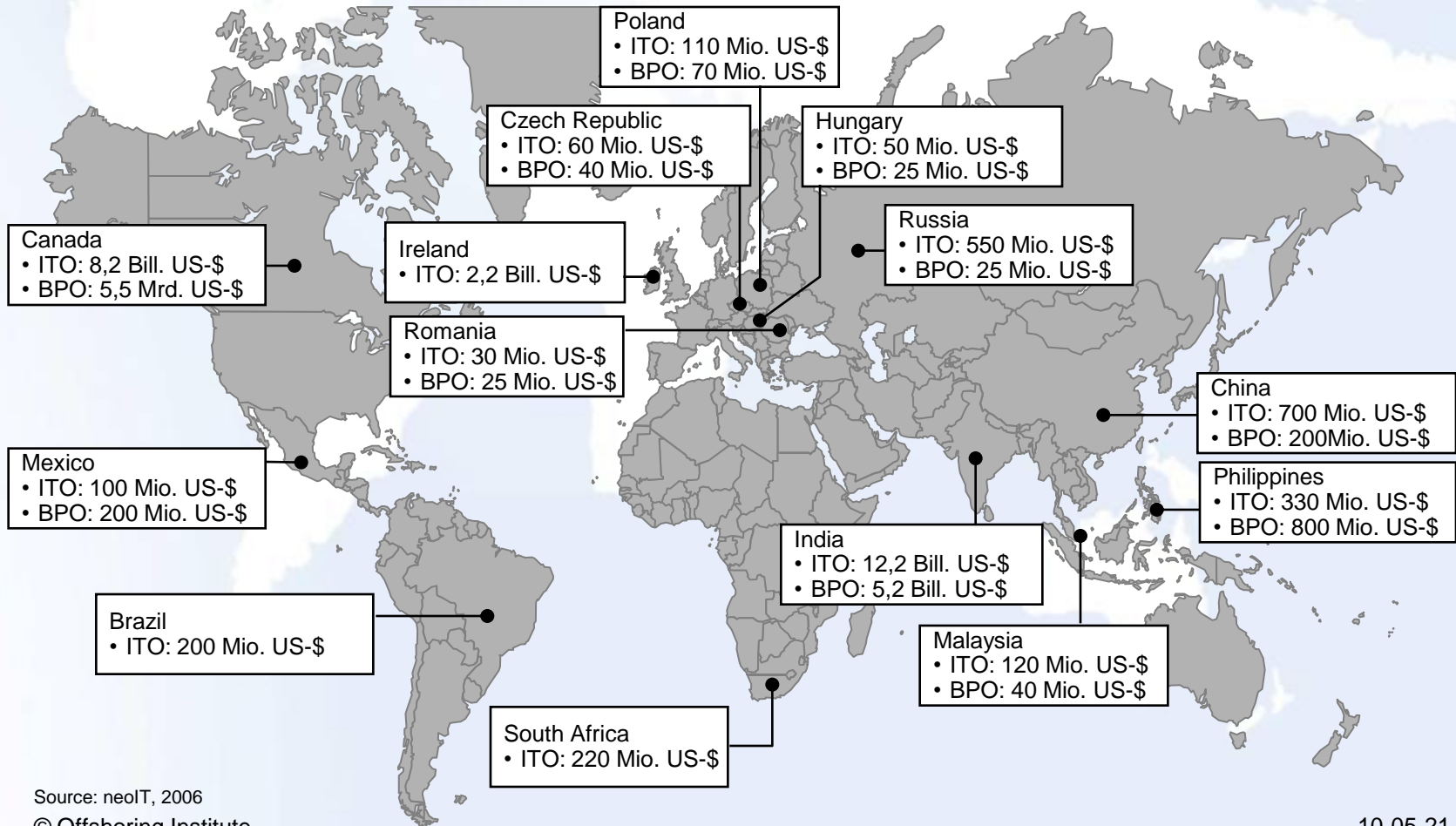
Comments

- Call Center activities are most often outsourced to specialized providers
- HR Outsourcing is very well established in North America with complex benefits processing conducted by providers
- Also, Payroll Outsourcing is driving high adoption rates for HR
- Transaction processing, e.g. for mortgages is a strong driver for Financial Services Outsourcing

The Economic Perspective

ITO and BPO Exports

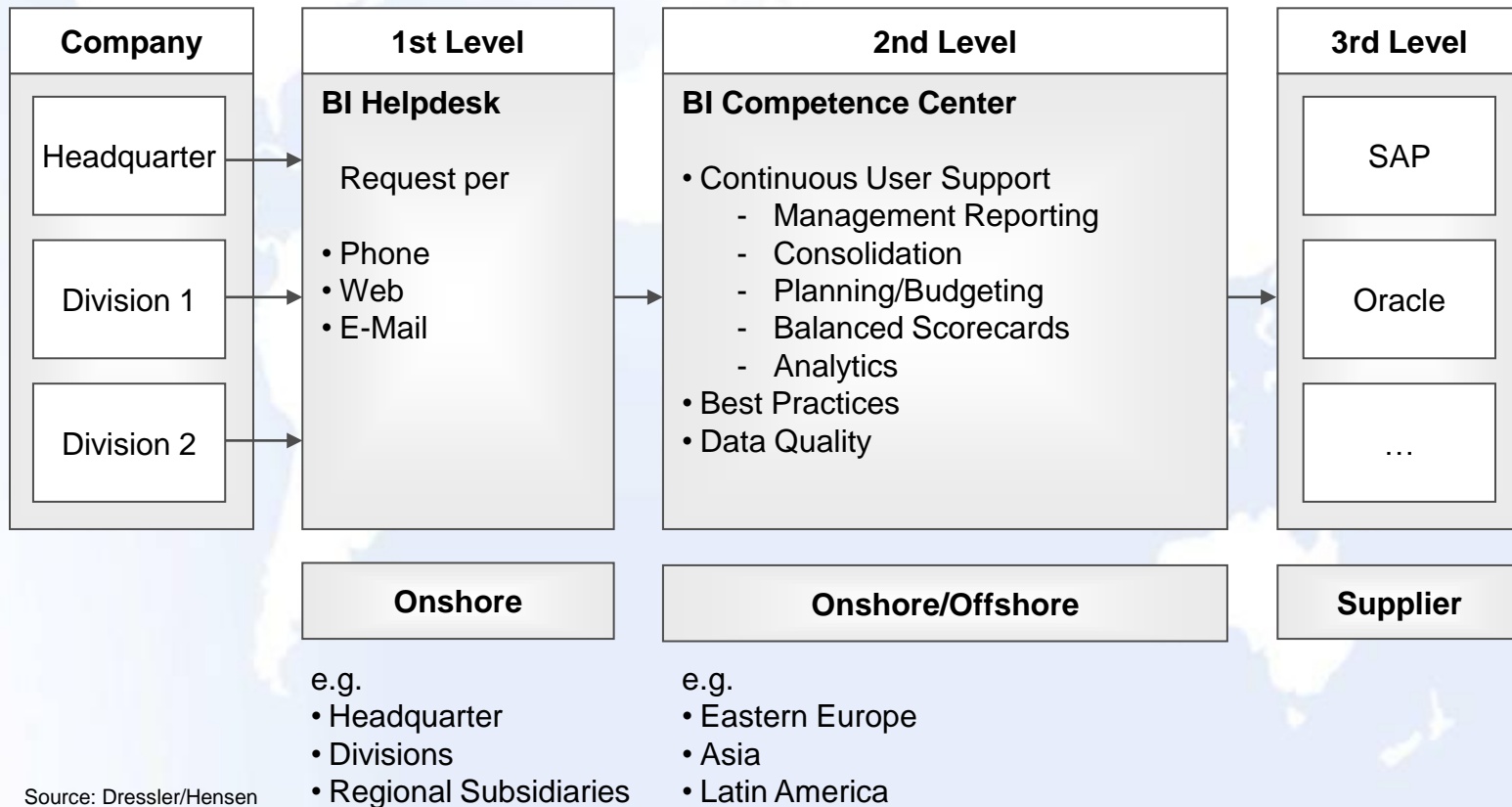
neolT



Source: neolT, 2006

Further automation and digitalization

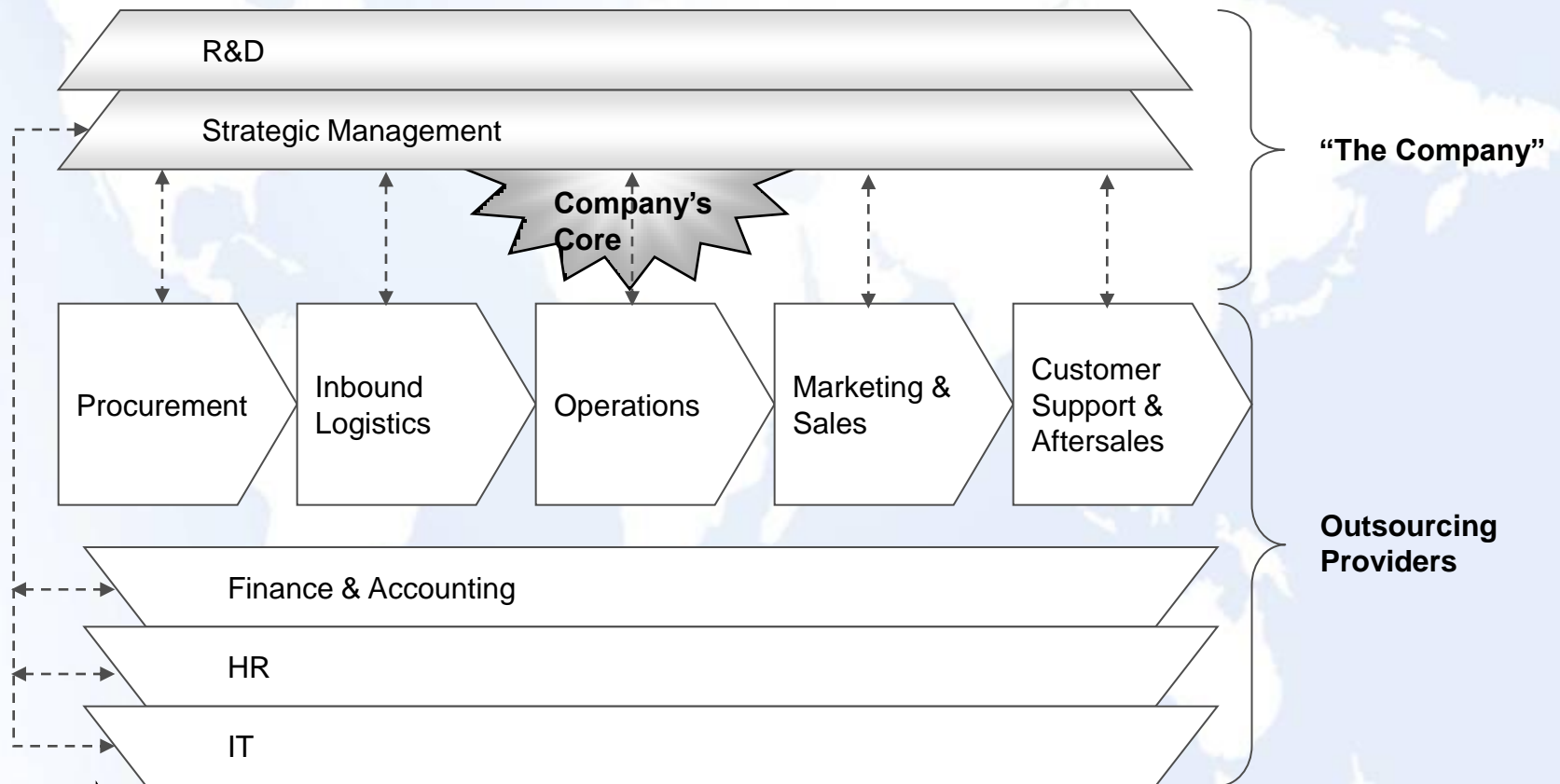
Effective Offshore Management Accounting Solutions based on Business Intelligence Tools



Source: Dressler/Hensen

Further automation and digitalization

The Future Company – True Focus on Core Competencies and complex BPO Vendor Relationship Management



➔ Although some Companies operate already according to the model above it needs more experience with SSC governance and vendor relationship management before it will be commonly applied

Location Selection + Case Study

Offshoring / Nearshoring / Outsourcing

Offshoring – Terminology and Examples

Offshoring

=

Moving of certain Business Activities to a different continent in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
Rolls Royce

UK-based Corporation moves certain functions to India

Nearshoring

=

Moving of certain Business Activities to a different country on the same continent in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
Whirlpool

US-based Corporation moves certain functions to Canada

Onshoring

=

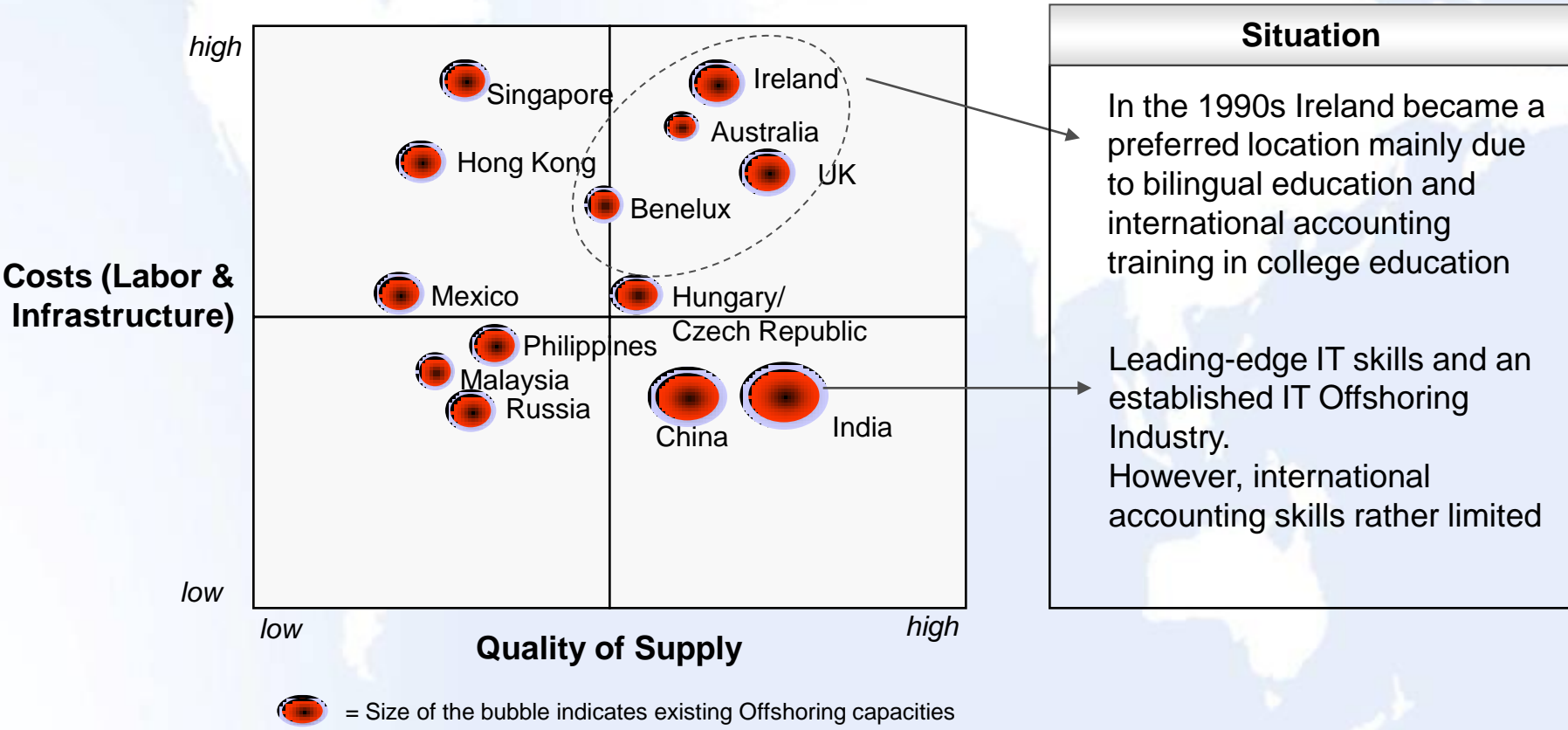
Moving of certain Business Activities to a different location in the same country in order to leverage mainly lower labor costs, improve quality and to get access to crucial skills required

Example:
FIAT

North Italian-based Corporation moves certain functions to South Italy (Bari)

Offshoring / Nearshoring / Outsourcing

Offshore Capacity for IT related Finance & Accounting Activities



Offshoring / Nearshoring / Outsourcing

Offshoring Destinations

Illustrative



Situation

- Canada, Ireland and India were the pioneers in the Offshoring business
- Eastern Europe, Latin America, China, and the Philippines are current hotspots
- Africa is the newest Offshoring player

Location Trends

Salaries are increasing drastically in Offshoring hotspots

Everest

Salary growth rates in an Application Development Center, India (Example)

Level	In % of employees	Salary growth rates
Project Manager	3 %	6 %
Project Leader	5 %	7 %
Team Leader	8 %	15 %
Senior Software Engineer	34 %	12 %
Software Engineer	50 %	11 %

Average 11.5%

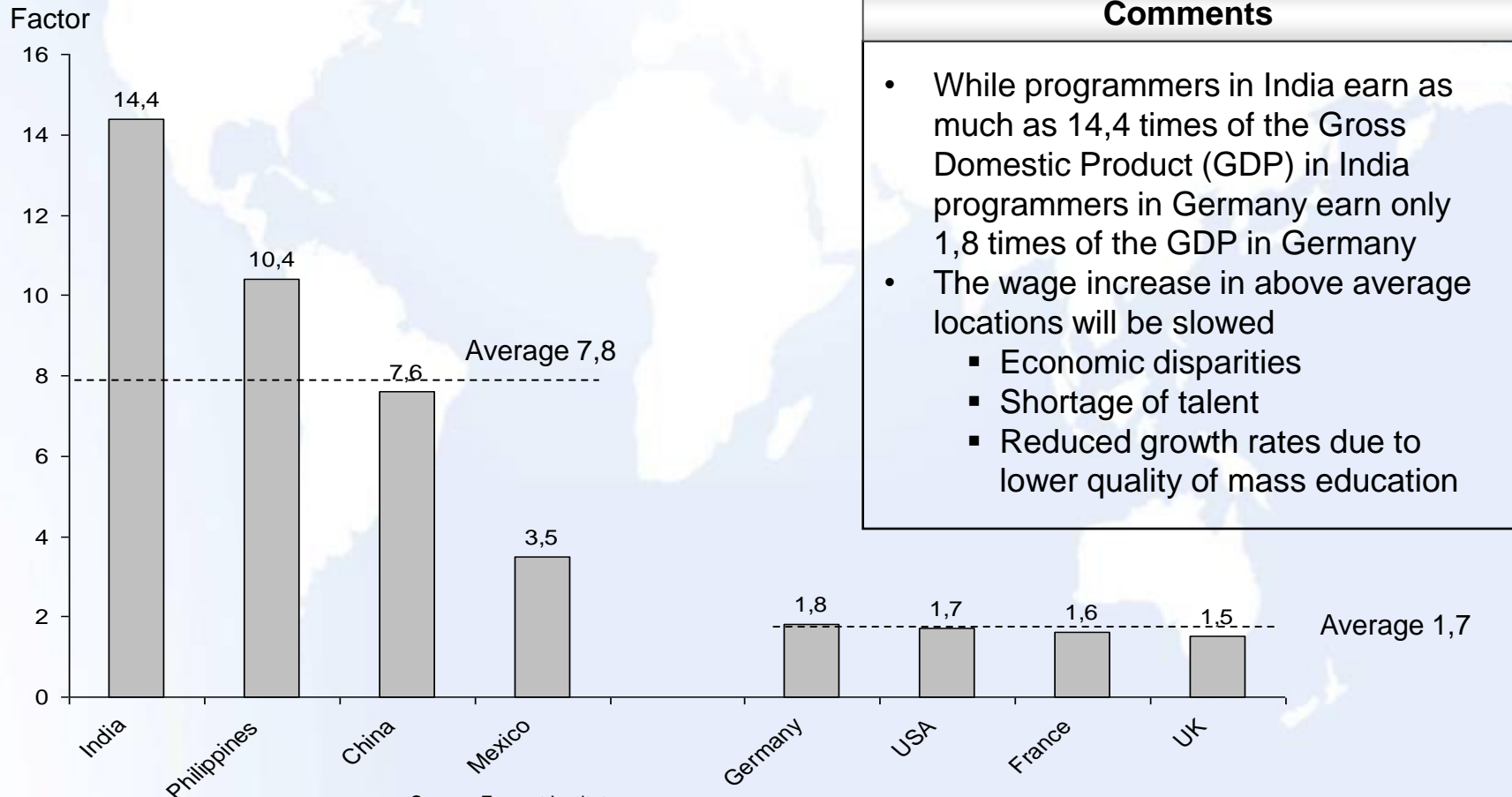
Situation
<ul style="list-style-type: none"> Salary growth rates are significant in particular for experienced staff High salary growth rates lead to attrition issues How sustainable are these sharp increases ?

Source: Everest Institute

Location Trends

Economic disparities within low cost countries are slowing down the wage increases

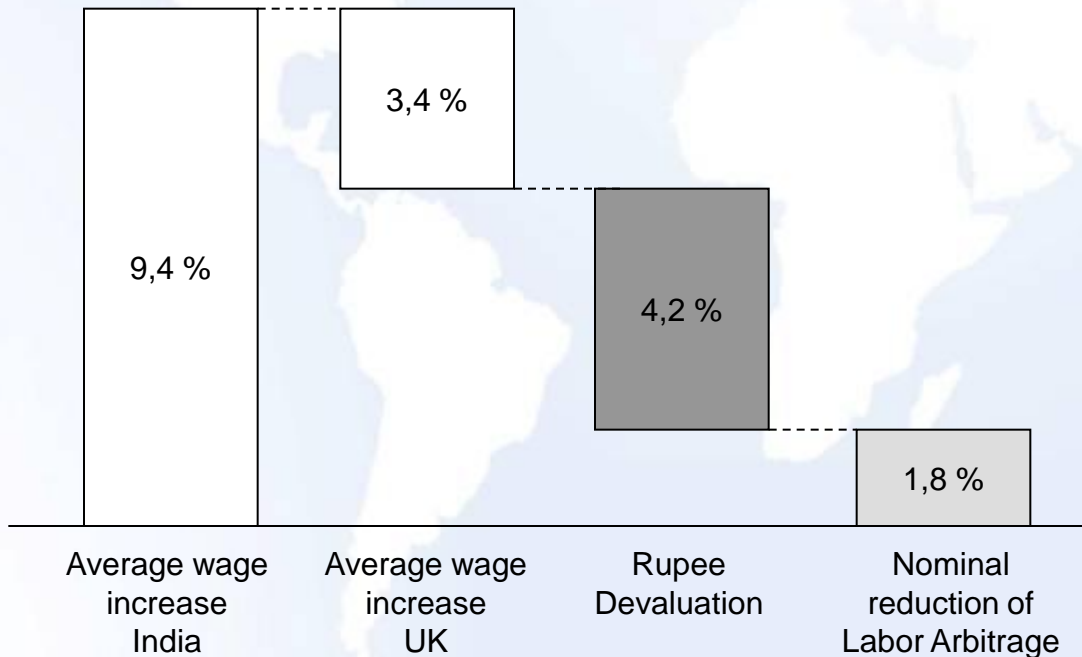
Everest



Location Trends

The Global Allocation of Work – Sustainability of Cost Advantages

Everest



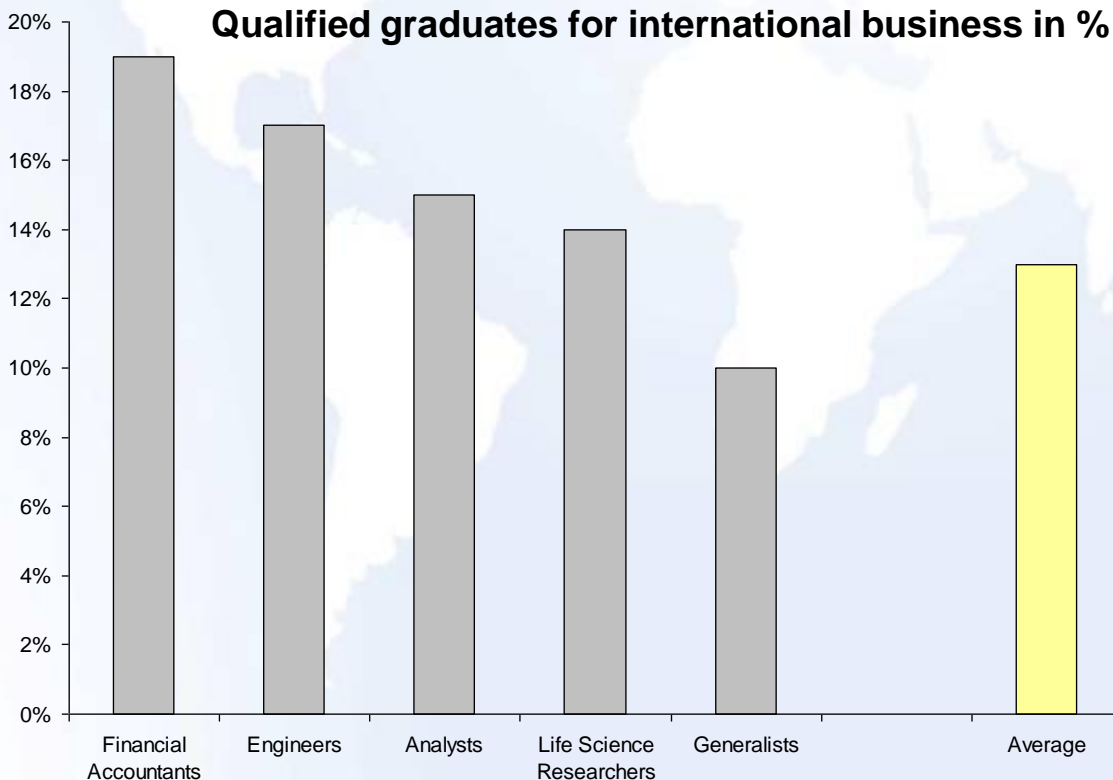
Comments
<ul style="list-style-type: none"> • Sustainability of labor cost advantages might be better than often thought • Currency devaluation effects of most low labor cost countries are slowing down the nominal wage increase in these locations • Even though some Nearshoring/Offshoring hot spots in Asia or Eastern Europe are currently experiencing wage increases in almost two digits the net effect is usually below 2%

Source: Everest Institute

Location Trends

Only few of the college graduates in low cost countries are qualified enough to support international business operations

Mc Kinsey



Situation

- Lack of suitability for international business because of various reasons
 - Language
 - Cultural background and adaptability
 - Quality of education
 - Lack of personal skills (e.g. teamwork, leadership)
 - Missing focus on international requirements (accounting standards, laws and regulations, etc.)
- Only few of the highly educated work force are willing to work in shifts

Source: McKinsey Global Institute

Location Trends

Typical tenure profiles show often a longstanding accounting workforce

Illustrative



Situation

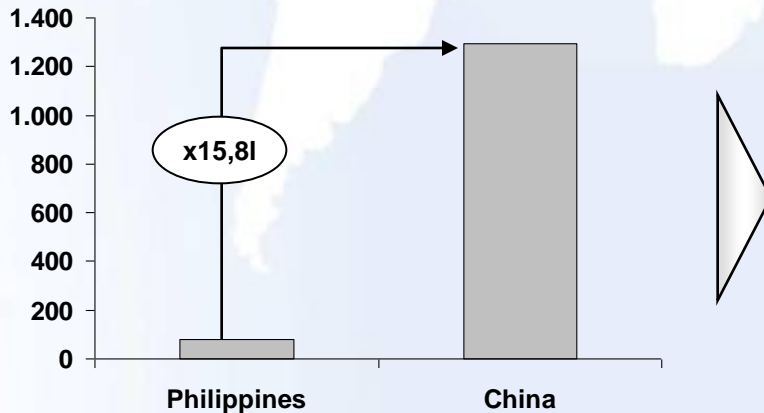
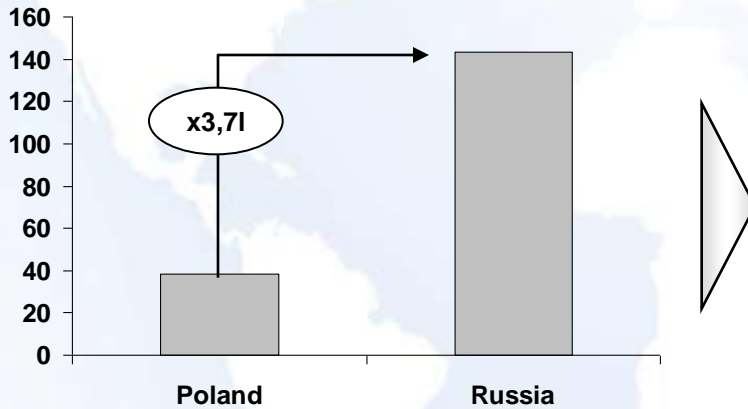
- Many accounting departments have a longstanding workforce due to significant transactional and manual workload in the past
- Employees in Continental Europe tend to be more loyal to the firm than in Anglo-America
- High levels of knowledge and experience
- However, often high severance payments have to be considered
- High levels of 'change resistance'

Location Trends

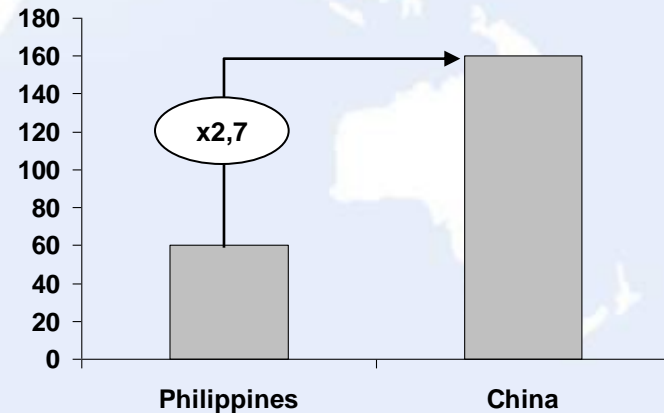
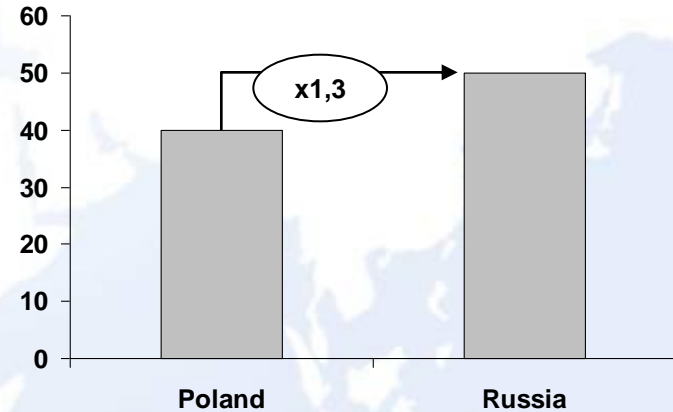
Size of the population can be misleading

Everest

Population in million

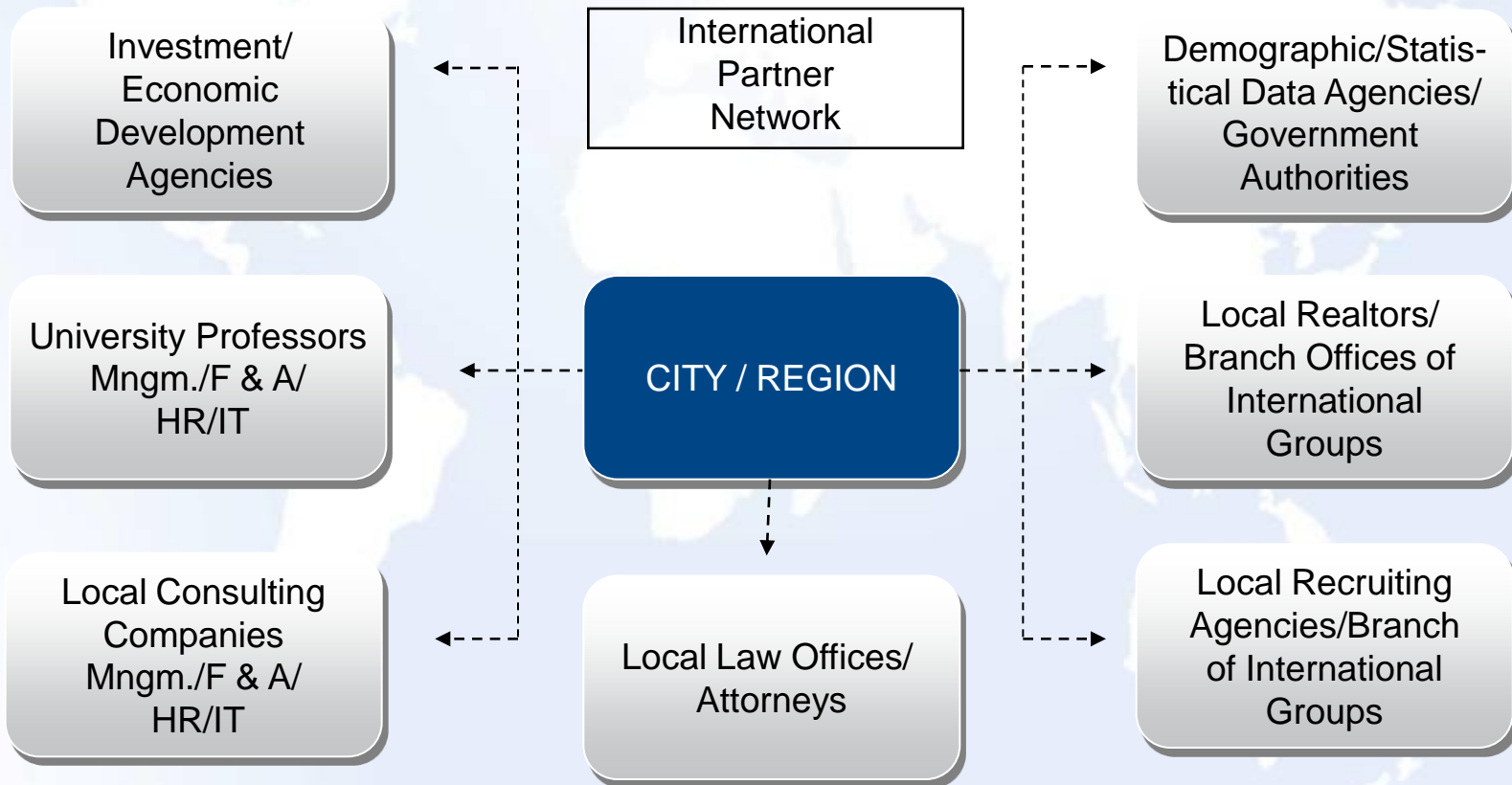


Engineers with less than 7 years business experience (in thousands)



Location Selection Criteria

The Institute utilizes various sources of information to obtain reliable data



Location Selection Criteria

Instant comparison of up to four cities according to 80 different criteria is possible

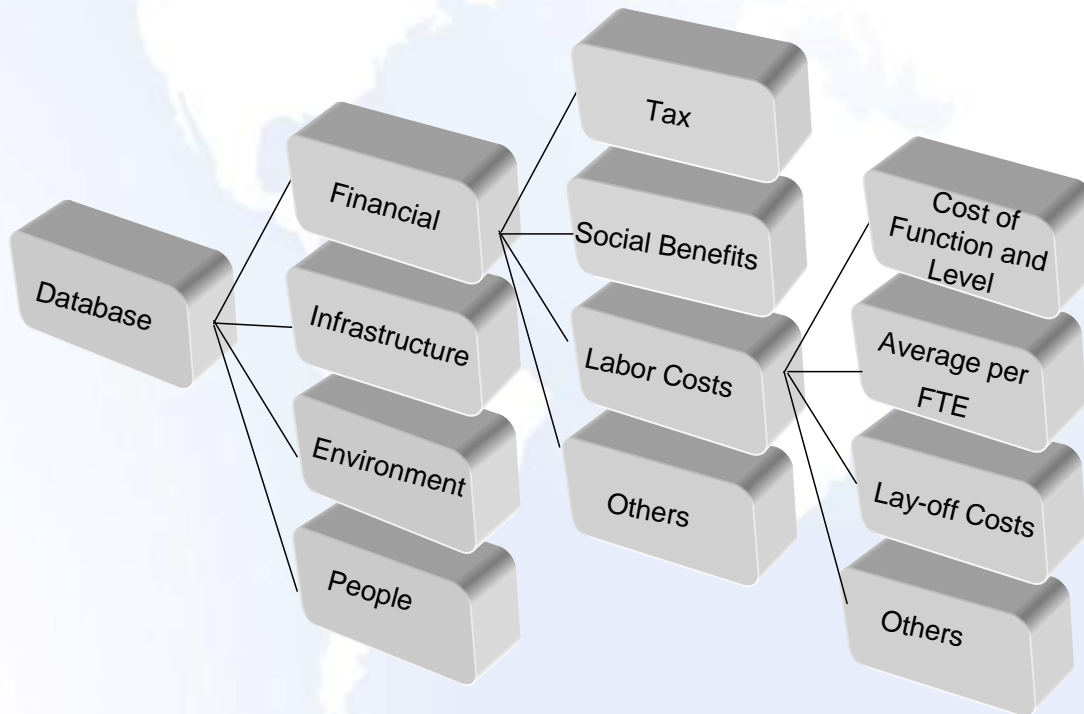
Example

Wage Costs (p.a.)	Beijing <input type="checkbox"/>	Mexico City <input type="checkbox"/>	Sofia <input type="checkbox"/>
Cost of Executives/Directors	14.448,95 € <input type="checkbox"/>	77.212,16 € <input type="checkbox"/>	27.610,19 €
IT/Database/Network Administrator	3.920,07 €	15.999,32 € <input type="checkbox"/>	15.553,74 €
Assistant/Software Engineer	5.086,79 €	15.046,94 € <input type="checkbox"/>	15.952,55 €
IT/Project Manager	9.353,21 €	42.664,84 €	24.542,39 €
Procurement/Shipping Assistant	3.726,14 €	5.739,67 €	12.148,48 €

Real Estate	Beijing <input type="checkbox"/>	Mexico City <input type="checkbox"/>	Sofia <input type="checkbox"/>
Downtown Office Rent p. sqm (p.a.)	245,85 € <input type="checkbox"/>	90,40 €	220,88 €
Downtown Office Sales Price p. sqm	2.261,84 €	335,09 €	1.891,81 €
Downtown Office Vacancy Rate	20,00 % <input type="checkbox"/>	11,69 %	4,30 %
City Office Rent p. sqm (p.a.)	216,35 €	131,53 €	169,75 €
City Office Sales Price p. sqm	1.573,46 €	509,74 €	1.278,25 €

Location Selection Criteria

The Database is categorized in four many areas and contains up to 120 different criteria by city



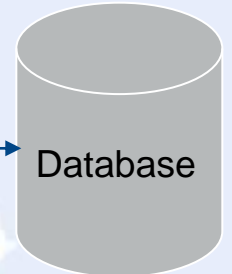
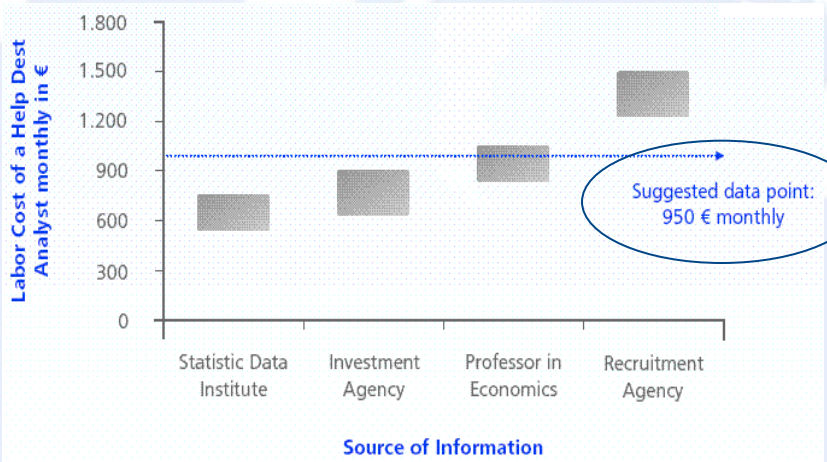
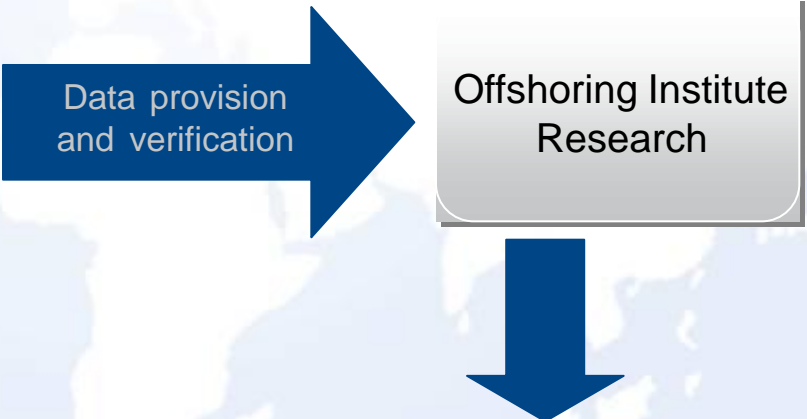
Situation
<ul style="list-style-type: none"> The level of detail of the Location Selection Criteria Database is worldwide unmatched The data allow assembling solid business cases on selected locations without any additional insights or external support Also, due to the yearly updated cycle continuous monitoring of locations is possible

Location Selection Criteria

The Offshoring Institute Research determines one robust data point per criterion

Example

- ➔ Investment Development Agencies
- ➔ University Professors
- ➔ Local Consulting Companies
- ➔ Local Recruiting Agencies
- ➔ Local Law Offices / Attorneys
- ➔ Local Realtors
- ➔ Etc.



Location Selection Criteria

Offshoring - Country Scoring Model

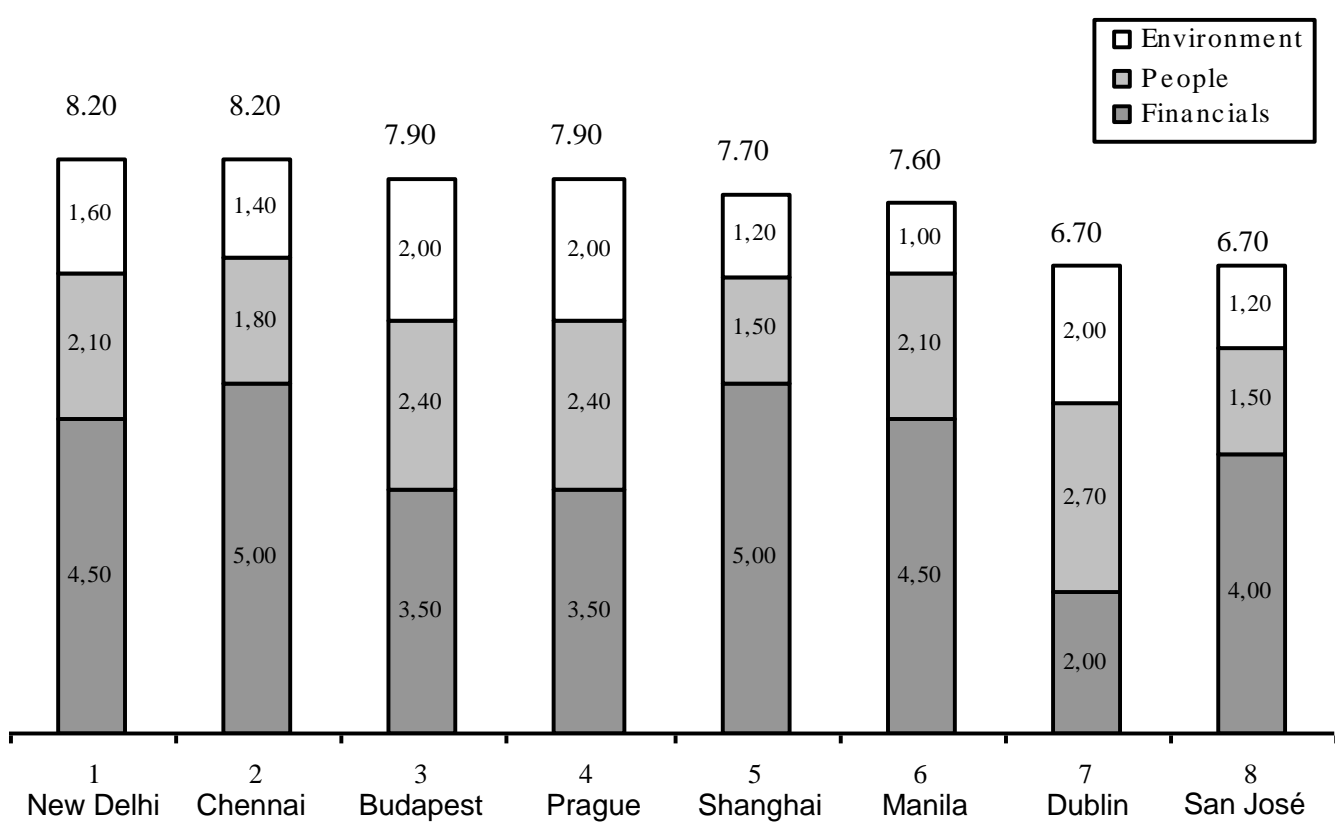
Example

Category (% of Total)	Country Characteristic	Metrics Used (Examples)	Metric Weight
Financial (50%)	<ul style="list-style-type: none"> • Cost of labor • Cost of management and infrastructure • Tax and treasury impact 	<ul style="list-style-type: none"> • Blended client wage costs, minimum wages • Average air, expatriate management salary and expenses, and occupancy/electricity costs • Corporate tax rates, profit realization/exchange rates 	40% 5% 5%
Environment (25%)	<ul style="list-style-type: none"> • Political and economic risk/stability • Country infrastructure • Cultural compatibility • Geographic proximity • Security of IP 	<ul style="list-style-type: none"> • Political and economic risk, government support • Relative strength of infrastructure and investments • Cultural differences/compatibility compared to U.S. • Relative distance (in bands) from U.S. • Relative security of intellectual property 	5% 5% 5% 5% 5%
People (25%)	<ul style="list-style-type: none"> • Outsourcing process experience, expertise • Size of labor market • Education level of work force • Language barriers & literacy rates • Employee retention 	<ul style="list-style-type: none"> • CMM SEI quality ratings, offshore market share • Available total labor market • Expected per capita education level • Percent fluency in English (client and third party), country literacy rates • Client retention/turnover rates 	5% 5% 5% 5% 5%

Location Selection Criteria

Offshoring - Country Scoring Model - Example

Example



Situation

Weights and Values are dependent on the company's specific situation, offshore processes in scope, existent facilities at certain offshore locations and individual preferences – there is no general score for one location!

Case Study

Example

Tasks

- Case company need to consolidate various F&A transactional activities in regional hubs in order to set the stage for further global expansion
- Offshoring Institute has been commissioned to analyze in-depth 9 North American and 4 Asian/Pacific potential locations
- Selected location criteria have been defined by the client senior team including respective weightings

Approach

- Reach consensus on criteria to be analyzed in detail and capture client preferences
- Capture location data in detail through proven Offshoring Institute research methodology
- Develop location model to analyze and compare location options according to key category groups
- Conduct ranking of location and provide scenario analyses

Results

- Provided comprehensive location ranking according to 455 single data points
- Reached agreement and consensus through transparent , comprehensive and analytical approach
- Created platform for objective and consensus-driven location selection for the case company
- Defined starting point for global location footprint strategy

Case Study

The methodological approach of the Offshoring Institute leads to reliable results

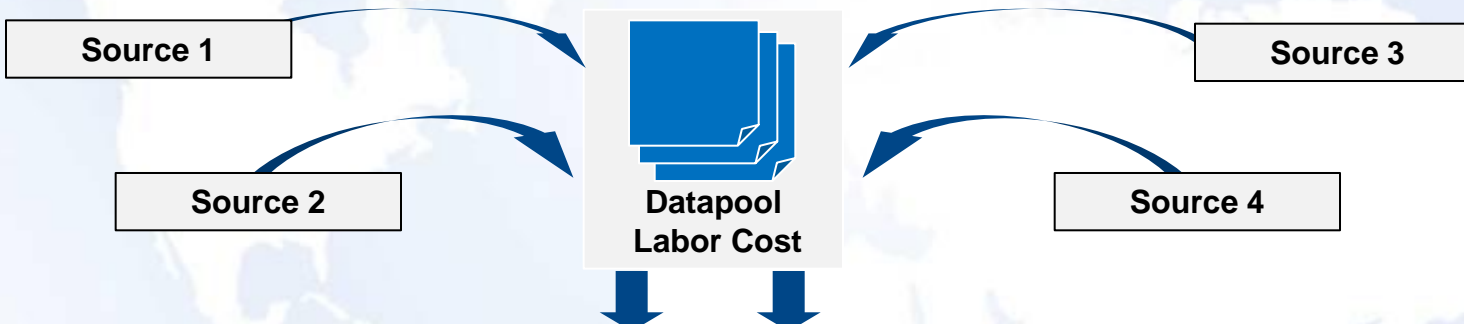
Example

- 1. Criteria Research** - The researchers of the Offshoring Institute determined all data of the Criteria chosen by the client company executives (in total 455 data points).
- 2. Location Scoring** - Two scoring models were developed, each for both continental regions. The scoring models evaluated all criteria for every location from “5” (best) to “1” (worst).
- 3. Criteria Weighting** - Four executives from the client company weighted the criteria by their importance. The consultants of the Offshoring Institute averaged the weights as a basis for the location ranking.
- 4. Location Ranking** - The scoring results of the location criteria were connected with the weighting average to achieve one reliable ranking figure for each location.

Case Study

Methodology/ Scoring Model

Example



Location	Salary Accounts Clerk	Scoring result 1
City 1	20,000 \$	5
City 2	30,000 \$	3
City 3	40,000 \$	1

Location	Salary Executive	Scoring result 2
City 1	200,000 \$	1
City 2	150,000 \$	3
City 3	100,000 \$	5

Weighting structure	
Accounts Clerk: 70%	Executive: 30%

Location	Scoring result 1	Ranking result 1	Scoring result 2	Ranking result 2	Ranking result total
City 1	5	3.5 (5 * 70%)	1	0.3 (1 * 30%)	3.8
City 2	3	2.1 (3 * 70%)	3	0.9 (3 * 30%)	3.0
City 3	1	0.7 (1 * 70%)	5	1.5 (5 * 30%)	2.2

Case Study

For the ranking the following weighting results to the categories and criteria were given by the client company:

Categories

	Labor Cost	People	Infrastructure	Environment
Average proportion of total Ranking	20,0 %	30,0%	27,0%	23,0%
Number of criteria	8	7	15	8
<i>Examples for important criteria</i>				
Most important Criterion	Labor Cost of Accounts Clerk	Language Capabilities	Time Zone	Reluctance about spec. Countries
Percentage of total Ranking	5,2%	7,8%	3,4%	5,0%
Second Most important Criterion	Accounts/ Finance Manager	Average day of absence per year	Internet Speed	Government Effectiveness
Percentage of total Ranking	4,1%	4,8%	2,6%	3,9%

Case Study

Most important single criterion: “Language capabilities” with nearly 8% weight of the total ranking result.

Criterion

weighting structure North America

Language	weight
English	70%
Spanish	25%
French	5%

weighting structure Asia/ Pacific

Language	weight
English	40%
Chinese (Mandarin)	20%
Japanese	20%
Chinese (Cantonese)	10%
Korean	5%
Thai/ Malay/ Indonesian	5%

Annotation:

- ➔ To cover the criterion, the Offshoring Institute research experts identified three respectively eight different common languages in the locations covered
- ➔ The capabilities per language are weighted with the preferences of the client company to reach one “language capabilities” figure

Case Study

The following selected locations were included in the ranking model for North America:

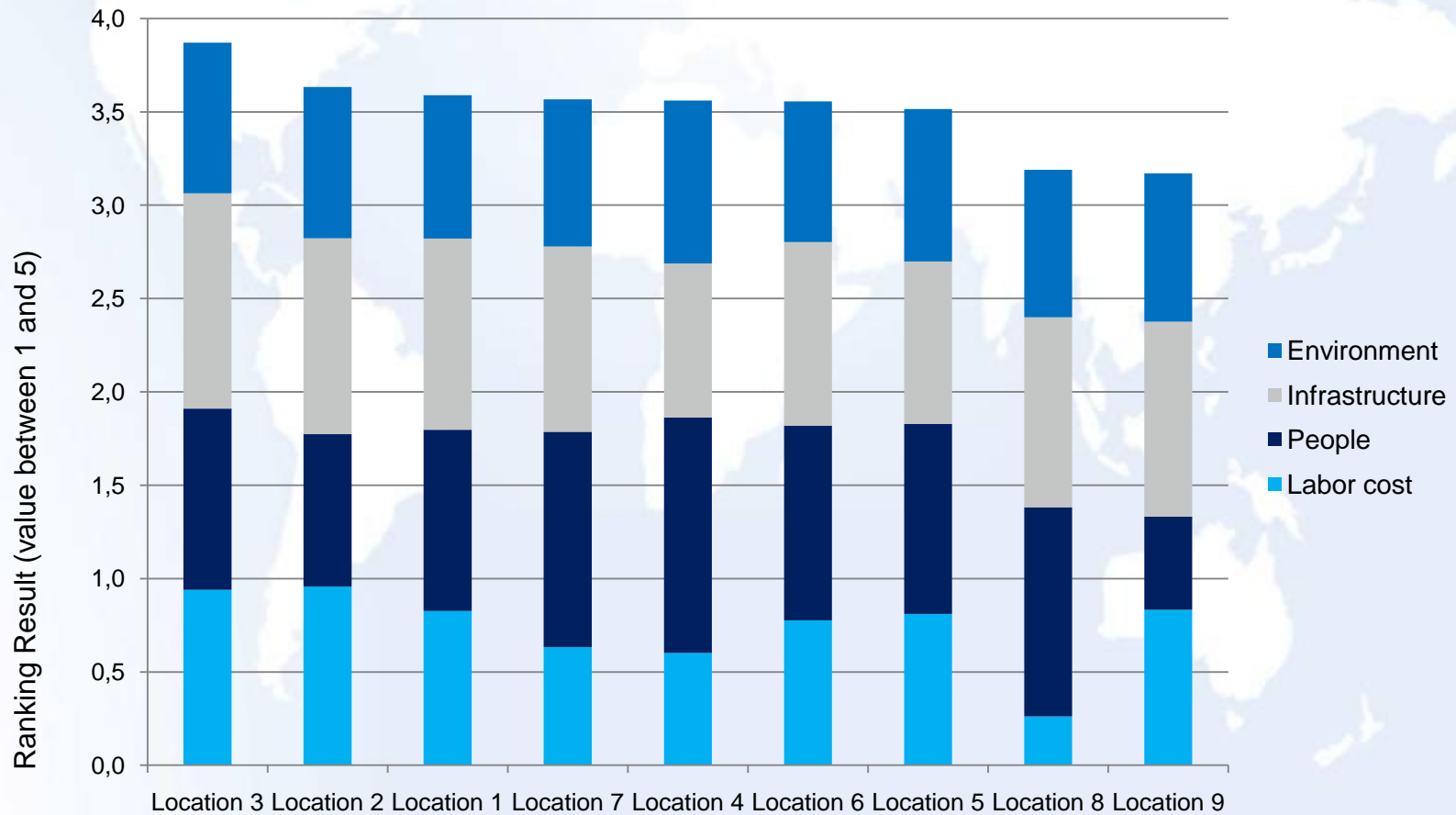
Example



Case Study

Selected results location ranking

Visual Data



Case Study

The following selected locations were included in the ranking model for Asia Pacific:

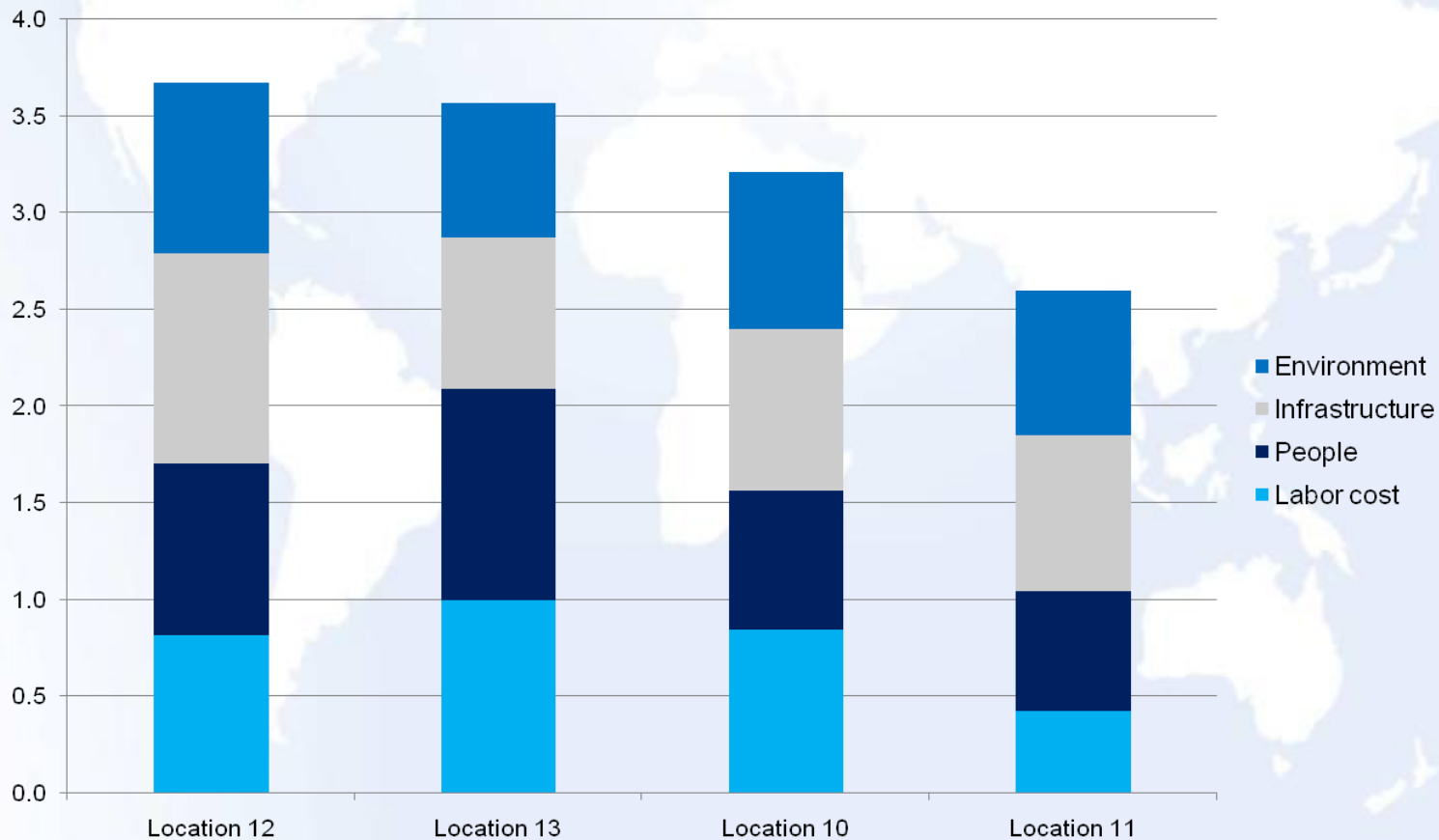
Example



Case Study

Selected results location ranking

Visual Data



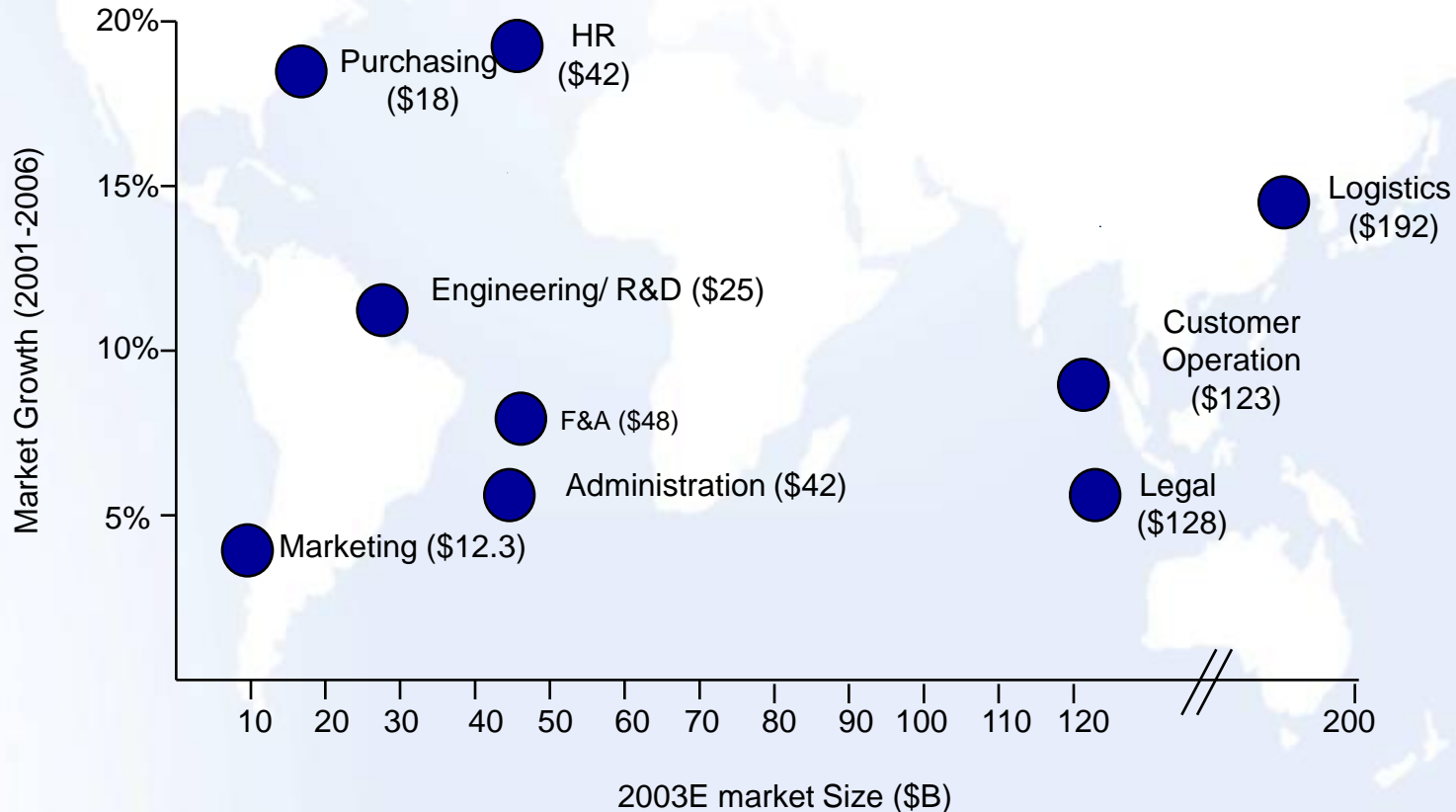
BPO Vendor Analysis and Selection + Case Study

BPO Market

BPO Market Perspective

IDC

Worldwide BPO Spending by Function

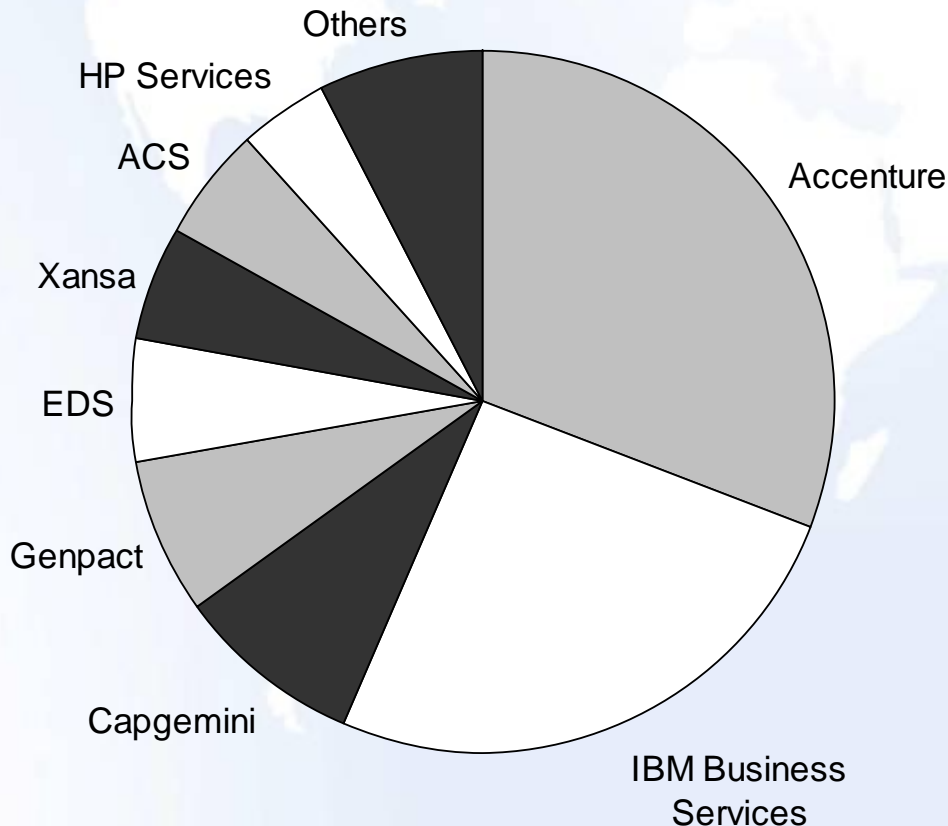


Source: IDC, World-wide BPO Outsourcing Forecast and Analysis Report, 2002, IDC Report 2002 – U.S. HR Management Services Forecast, 2002-2006

BPO Market

Example – Finance BPO Player

Offshoring Institute



Situation
<ul style="list-style-type: none"> Accenture is still the strongest finance BPO provider due to its heritage as Andersen Consulting and the strong finance consulting expertise IBM Business Services has combined the unique finance service capabilities from PwC with the IT capabilities and market penetration from IBM Capgemini, EDS and ACS are IT Outsourcing powerhouses which have emerged into the finance space Genpact used to be the former Finance Shared Service Center of GE Capital and is now positioned as stand-alone BPO Provider

Source: Offshoring Institute

BPO Market

German BPO Provider

Example

BPO Provider	Country	Locations	Key Focus	Major Clients
Bosch	Germany	Magdeburg, Germany Timisoara, Romania	Call Center Services Small F&A BPO practice	Bosch Group (F&A)
New Source	Germany	Hannover, Germany Frankfurt, Germany	F&A BPO Former captive SSC Bahlsen	Lorenz Group
Rödl & Partner	Germany	Various (BPO locations not disclosed, i.e. Bucharest)	Audit & Tax firm with global footprint	
Deutsche Shared Services	Germany	Weingarten, Germany Bratislava, Slovakia	IT Outsourcing F&A BPO new business	T-Systems T-Com T-Mobile

BPO Market

US-based BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Accenture	USA	Aberdeen, Bratislava, Prague, Piasenczo PL	BPO core business	Thomas Cook
ACS	USA	Barcelona, Toulouse, Krakov	IT Outsourcing Some F&A BPO	GM Office Depot
CSC	USA	World Sourcing Delivery Model	IT Outsourcing BPO side business	Swiss Re
EDS	USA	Budapest	IT Outsourcing Focus on captive SSC F&A	EDS (captive)
HP	USA	Barcelona, Wroclaw, Bucharest	Major F&A BPO focus Biggest provider in Germany	P&G Fraport
IBM	USA	Brno, Budapest, Vilnius, Krakov, Bratislava	BPO core business of Global Services BU	TBD
Mellon Source Net	USA	Frankfurt, Amsterdam, London	F&A BPO specialist Banking, Insurances	Mainly NA
OPI	USA	Sofia	F&A BPO focus Expert for middle market	Mirant Corporation

BPO Market

European BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Cap Gemini	France	Warsaw, Krakov, Wroclav, Barcelona, Madrid, Murcia, Langreo-Asturias,	IT Outsourcing Strong footprint in F&A BPO	Syngenta Prudential
Xansa	UK	Bedford, Birmingham, Edinburgh, Leeds, London, Manchester, Northampton, Reeding	BPO, strong F&A practice	British Telecom
Xchanging	UK	Chatham, Frankfurt, France	BPO specialist	NA

BPO Market

Indian BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Genpact	India	Budapest, Bucharest, Wroclav	F& A BPO	Linde GE
HCL Technology	India	Belfast	BPO	British Telecom
Infosys	India	Brno	ITO, emerging F&A BPO business	Philips
WNS	India	Bucharest	ITO focus Emerging F&A BPO player	NA

BPO Market

Leading BPO Providers without European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Caliber Point/ Hexaware	India	No delivery yet	F& A BPO Leader	Mainly NA
iGate	India	No delivery yet	ITO, strong F&A BPO technology	Mainly NA
Satyam	India	No delivery yet	ITO Some emerging F&A BPO	Mainly NA
Tata Consulting Services	India	No delivery yet	Major ITO player Strong in global BPO,	
Wipro	India	No delivery yet Some clients operations	ITO Wipro BPO BU	Mainly NA

Case Study

The Situation – Streamlining and cost reduction

Example

- ➔ The company is a German Automotive Supplier with 3+ billion EUR in revenues
- ➔ The Case Company operates globally with sales, manufacturing and distribution in more than 20 countries
- ➔ Around 75% of the sales are generated outside of Germany
- ➔ Overall, the group employs approximately 18,500 people in its four product divisions
- ➔ Almost 250 employees are part of the Finance & Accounting organization
- ➔ Some finance professionals report directly into the Corporate CFO whereas the bulk of the finance people reports directly into the respective local organizations
- ➔ The Case Company is seeking streamlining and cost reduction for its accounting activities

Case Study

Key Challenge – Captive SSC versus BPO

Example

- ➔ Key challenge for the Case Company is ongoing cost pressure that results in streamlining the front and back office
- ➔ Within the back office functions in particular the accounting organization stands out
- ➔ Accounting at the Case Company takes place on a legal entity and country level which means that at almost 40 different locations accounting activities are performed
- ➔ Although SAP is in process of being implemented standardization levels are quite low
- ➔ Processes are more or less designed by the local accounting organization and mostly not very efficiently organized
- ➔ A scanning solution was implemented lately in order to reduce costs
- ➔ Most of the accounting activities, however, are performed in high cost countries such as Germany, France, Spain and the USA
- ➔ Due to the urgent need for process standardization and cost reduction the Case Company initially planned to establish a nearshore captive Shared Service solution
- ➔ However, with limited experience in building and running an accounting SSC at a nearshore location the search for a suitable Business Process Outsourcing provider was launched

Case Study

The Scope – Accounting processes of four different countries

Example

Accounting processes in scope

- Accounts Payable
- Accounts Receivable
- Fixed Asset Accounting
- General Ledger Accounting including Travel and Expense Accounting
- Countries

Countries/Locations

- Germany (three locations)
- France (two locations)
- Spain (one location)
- Czech Republic (one location)

Employees and Costs

- 70 FTE in scope
- Average tenure with the Case Company – 14 years
- Average net salaries range by 33,000 EUR (due to lower salaries in the Czech Republic) – fully fringed average is about 42,000 EUR

Case Study

Example



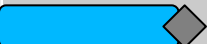

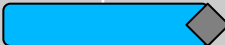


The Approach – Experience and tools provided by the Offshoring Institute

- ➔ The Offshoring Institute was commissioned to support and facilitate the BPO selection process
- ➔ Due to our excellent market knowledge and relationship management to the BPO providers 15 potential BPO candidates could be identified
- ➔ Overall, after critical review and assessment 12 BPO providers were invited to submit a proposal
- ➔ The Offshoring Institute provided guidance, counseling and the required tools in order to develop a state-of-the-art Request for Proposal
- ➔ The Offshoring Institute supported the selection process through its structured selection methodology
- ➔ Also, the experts of the Institute guided the finance leaders and senior executives of the Case Company through the process of understanding, accepting and eventually fully supporting the BPO solution

“This RFP was one of the best we have seen in years. It not only highlighted the seriousness of the Case Company to outsource its accounting operations – it also simplified the process of drafting a to-the-point response very much. Excellent work.” (Head of Business Development of a large-scale global BPO provider)

Case Study

The Approach – Clear process steps in order to support smooth decision-making

Phase	Aug	Sep	Oct	Nov
Agreement on RFP & Long-list		Confirmation with CFO		
Send RFP			Due date RFP response	
Select Short-list and send notifications			 Send notifications Final 4	
Bidders conference/ One-on-One Meetings				
Submission last and final offer				
Negotiations/ Due Diligence/Site Visit				
Final Decision/ Contract Closing				

Case Study

The Offshoring BPO Selection Methodology – Focus on four criteria

Example

Sub-Criteria

Criteria	Criteria Weight
Experience and Reputation	25 %
Capabilities and Knowledge	10 %
Cost and Contract	35 %
Cooperation and Trust	30 %
Sum	100 %

Case Study

Breakdown of categories in sub-criteria is required in order to assign detailed weightings - Example:" Experience & Reputation"

Example

Sub-Criteria Experience & Reputation	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
BPO Knowledge and Experience	20 %	5	4,5	4,5	4
Outsourcing and BPO Reputation	20 %	5	4,5	4,5	3,5
References (comparable)	10 %	3,5	4,5	3	3,5
Quality and Continuous Improvement Programs	20 %	4	4,5	4	3,5
Service-Portfolio (IT, BPO)	10 %	4,5	4	3,5	4
Back up and Contingency Capabilities	10 %	4	4	4	4
Financial Stability	10 %	4,5	4,5	4	4
24/7 Service Capabilities	0 %	4	4	3,5	4
Sum	100 %	34,5	34,5	31	30,5

Case Study

Sub-Criteria: Capability and Knowledge

Example

Sub-Criteria Capability and Knowledge	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
IT and SAP Capabilities	30 %	4	4	4	4
Consulting Capabilities	10 %	5	3,5	4,5	3,5
Industry Expertise	10 %	3,5	4	2,5	3,5
Process Expertise	30 %	4,5	4,5	4	4
Language Capabilities	20 %	4,5	5	4	3,5
Sum	100 %	21,5	21	19	18,5

Case Study

Sub-Criteria: Cost and Contract

Example

Sub-Criteria Cost and Contract	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
Price vs. Service	60 %	3	3,5	4,5	2,5
Flexible Pricing (e.g. Transactional-based Pricing)	0 %	3	3	3	3
Contract and SLA Capabilities	0 %	4	3,5	3,5	3,5
International Footpring and Low Cost Delivery Capabilities	40 %	5	4,5	4	4,5
Sum	100 %	15	14,5	15	13,5

Case Study

Sub-Criteria: Cooperation and Trust

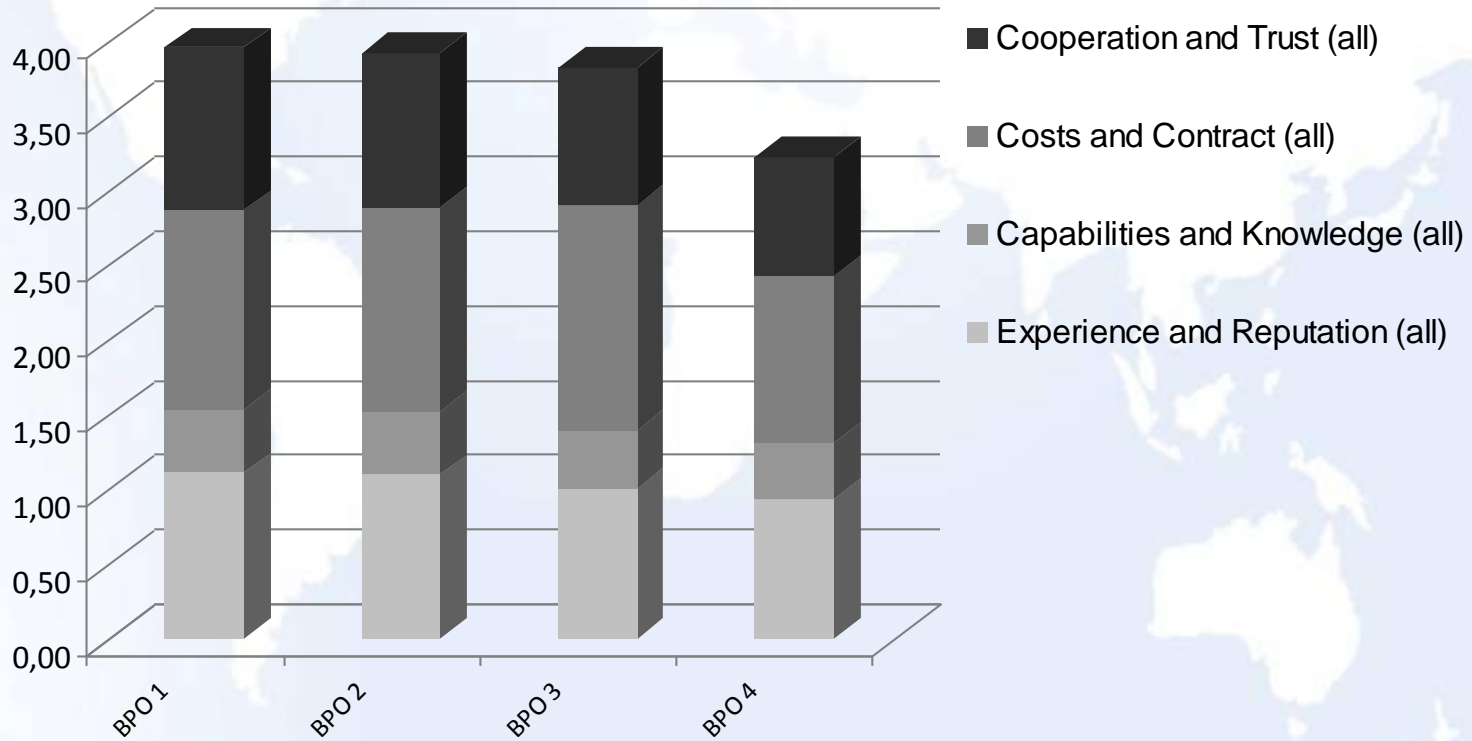
Example

Sub-Criteria Cooperation and Trust	Sub-Criteria Weight	Sub-Criteria Value 1= very bad; 3= average; 5= very good			
		BPO 1	BPO 2	BPO 3	BPO 4
Existing Relationships (e.g. IT)	15 %	3	2	2	1
Key Personnel	15 %	3,5	2,5	2,5	2
Cultural Fit	20 %	3,5	4	3,5	2,5
Organization of Cooperation	10 %	3,5	3,5	3	3
Reliability and Trust	40 %	4	4	3,5	3,5
Sum	100 %	17,5	16	14,5	12

Case Study

Objectivity through rigid methodology supports decision-making

Illustrative



Case Study

The Results – Impressive cost savings of up to 50%

Example

- ➔ The Case Company has selected a global BPO player who will support the company's accounting processes out of its Poland-based accounting center
- ➔ Currently, the selected processes are in transition to the center
- ➔ The Case Company is in process of reducing headcount by 55 FTE in four high cost countries
- ➔ Approximately 15 FTE remain as „retained organization“ and will coordinate BPO activities and handle critical exception management and local statutory reporting requirements
- ➔ Cumulative running cost savings of more than 9 million EUR over a contract period of 5 years including transition costs (almost 50% of the variable costs)
- ➔ Break even of less than 24 month (key issue are relatively high severance packages in the respective countries)
- ➔ Transition will be completed in less than 4 month
- ➔ Countries will be on-boarded sequentially to the BPO solution

Case Study

If results are very close to each other, reasons have to be balanced

Example

BPO Provider 1
<ul style="list-style-type: none"> • Cooperation with BPO Provider 1 should work because of their previous experiences in this area • Necessary to build up a Workflow System thereby later implementation (risk-factor) • BPO Provider 1 is probably cost-saving alternative

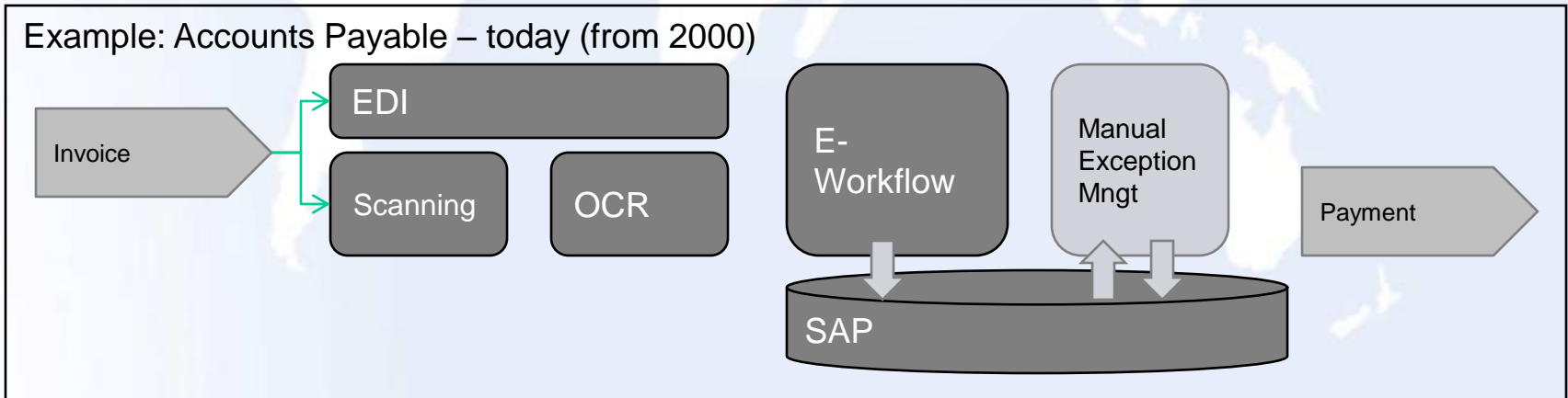
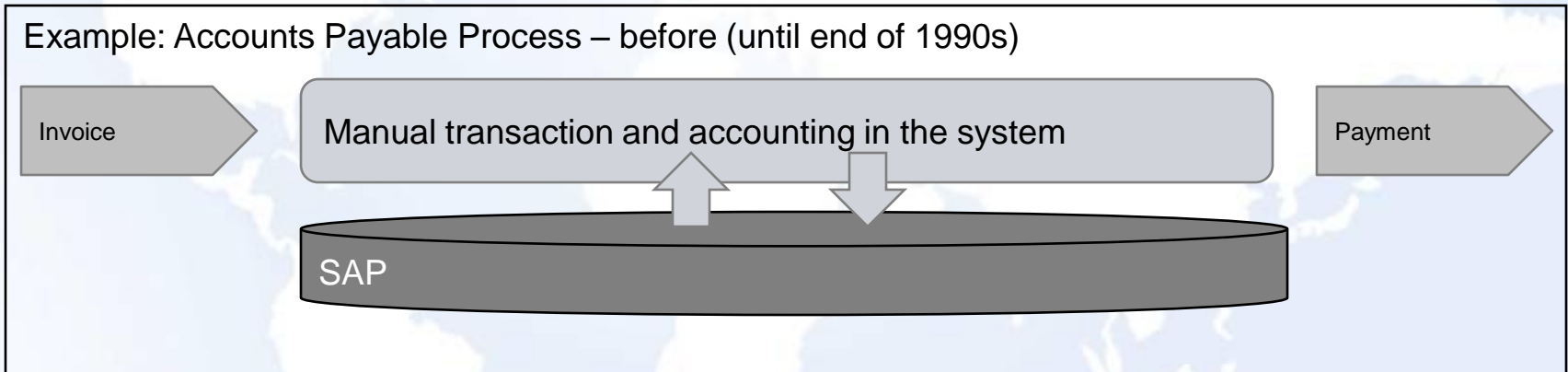
BPO Provider 2
<ul style="list-style-type: none"> • BPO Provider 2 offers professional automation solution with immediate use for the company • Realization of savings depends on needed automation condition (risk-factor)

<ul style="list-style-type: none"> • Both suppliers provided competitive offers • In consideration on existing general conditions and relative low automation level the BPO provider 1 offer seemed to be lightly favorably • A cooperation with BPO Provider 2 should be considered if the supplier takes part of the risk of unrealized automatizations
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Case Study

The importance of human interaction is decreasing in many service processes – but can not be replaced at all

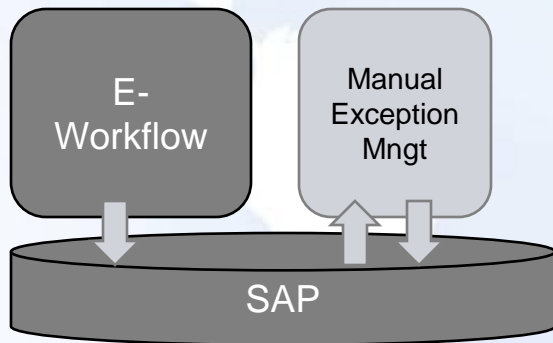
Example



Case Study

**The way SSC will operate is about to change –
Technology is replacing the human factor step-by-step**

Example



Humans vs. Technology
<ul style="list-style-type: none"> • Development of transactional SSC to Center of Competence/ Center of Expertise • Transactional processes = rules-based and therefore to be captured with new technologies • New requirements towards capabilities and qualification of people • Increased importance in quality of the labor pool in location selection • Totally automatized service processes → since beginning of the 1990s foreseen but not near a reality today → a realistic option within the next 10 years?

Thank you for your attention

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